H. J. Heinz Company Annual Report 1976

H. J. Heinz Company was founded in 1869.

It began with the vision of one hard-working young man. Today it has 35,000 employees in its many offices, factories, test kitchens and research laboratories.

It began with a single product, horseradish, sold from door to door to neighboring housewives. Today it offers many hundreds of products marketed in more than 150 countries and territories.

It began in the kitchen of a small home upriver from Pittsburgh. Today it has major facilities in 43 locations around the world.

It began with the produce of a backyard garden. Today it draws upon land and sea resources in every latitude.

It began in response to the need for superior, dependable foods that would be available around the calendar. Today, in this year of the American Bicentennial, H. J. Heinz Company remains dedicated exclusively to the production and sale of convenience foods meeting the highest standards of quality and nutrition.

The Cover—Class of '76

The high school seniors on our cover exemplify the spirit that takes us into our Bicentennial. What America becomes in its third century will depend largely upon what they—and millions like them—choose to make it. For them, we have prepared a picture essay (see center section) that we hope will some day stir in them fond recollection of the world as it was when they were young.

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Annual Meeting

The annual meeting of company shareholders will be held at 2 p.m. on Wednesday, September 8, 1976 at World Headquarters in Pittsburgh. Formal notice of the meeting and proxy materials will be sent to shareholders about August 2, 1976.

Heinz

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(In thousands of dollars except number of shares and shareholders and per share data)

	1976	1975	% Change
Net sales	$ 1,882,359	$ 1,662,701	13.2
Net income	73,960	66,567*	11.1
Per common share amounts:			
Net income	$ 4.82	$ 4.40*	9.5
Net income (fully diluted)	4.72	4.38*	7.8
Dividends	1.30	1.16	12.1
Book value	35.68	33.06	7.9
Additions to property, plant and equipment	$ 34,682	$ 57,219	(39.4)
Depreciation expense	27,900	25,090	11.2
Net property, plant and equipment	336,624	303,912	10.8
Working capital	434,572	378,418	14.8
Shareholders' equity	$ 598,613	$ 502,796	19.1
Number of common shareholders	11,694	11,907	(1.8)
Average number of common shares outstanding	15,130,989	15,088,743	—

*Income includes $2,724,000, after tax, or 18 cents per share, representing a nonrecurring gain arising from settlement of insurance claims in connection with fire losses of a subsidiary.

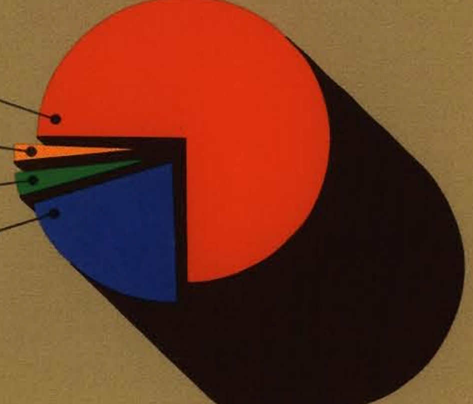
Utilization of Sales Dollar

Ingredient, packaging material and other costs 73.8¢

Net income 3.9¢

Taxes 4.9¢

Wages and employee benefits 17.4¢



To Our Shareholders:

It took H. J. Heinz Company more than a century to reach the billion-dollar level in annual sales.

Now, only four years later, we are well on the way to our second billion.

The advance has been steadily upward. Fiscal 1976 was the 13th consecutive year in which we registered new records for sales and earnings.

This unbroken progress has brought us to the encouraging figures on the opposite page. The table shows that, once again, we have been successful in pursuit of the ambitious goals we have set for ourselves.

What the table cannot show is the difficult route we had to travel in order to reach our latest destination. Like the summary of an athletic event, it concerns itself only with results. It ignores the handicaps and hurdles that had to be overcome along the way.

Those obstacles, as they affected the entire economy, were realities all too painful for the managers who had to cope with them.

In FY 1976, the U.S. economy did indeed turn upward, but in the rest of the world the effects of recession lingered, with inflation far from being conquered and with consumer demand consequently weak. In the U.S., in particular, government continued to find new ways to disrupt the market system.

Heinz-U.K. increased its sales and profits by a respectable amount, outperforming its competitors. In Italy, Plasmon recorded lira profits considerably greater than those of the year before, preserved its strong market shares and remained in sound financial condition.

Heinz companies there and elsewhere mounted stringent programs to counter inflation and monetary instability. They tightened their inventory controls, promoted greater efficiency, intensified their marketing efforts and extended their programs to weed out low-volume, low-profit products. At the same time, they did not hesitate to move aggressively into those markets that offered attractive potentials. Neither did they slacken their promotion of traditional lines, where the Heinz reputation for quality and reliability helped to generate improved shares of markets.

The result, especially pleasing to management, was that our foreign business rose by more than 30% in U.S. dollar earnings despite lower exchange rates and continuing high levels of inflation. Heinz-Canada and Heinz-Australia scored strong gains over the preceding year.

Once again, a series of unpredictable developments tested and proved our greatest strength—the skill of our management teams. The freedom those teams enjoy in day-to-day decisions gave continued proof that decentralization provides the most effective way to achieve flexibility in coping with the variety of problems that confront an organization operating in a number of countries.

The decision last March to raise the common stock dividend—the 11th such increase in the past nine years—was based upon a recognition of favorable prospects and clear evidence of corporate financial strength. During fiscal 1976, we reduced total debt by more than $75 million, reducing our debt-equity ratio from 38.4% to 28.3%. The balance sheet at year end was the strongest in the company's history.

This strength has permitted us to extend the application of a policy rooted in two basic premises:

- First, we must concentrate our energies upon our established skills in the food processing industry, which offers attractive opportunities for growth in the decades to come.
- Second, our future growth will be attained by ranging beyond our basic product lines and expanding our interests to

R. Burt Gookin, Henry J. Heinz II, Anthony J. F. O'Reilly

encompass new areas of food technology.

We signaled one direction of our growth at midyear with the acquisition of The Hubinger Company. This new member of the Heinz family gives us an important capability in the corn milling industry, which supplies a variety of cornstarch and syrup products for industrial and consumer use. Our year-end decision to invest more than $30 million to take Hubinger into the high fructose corn syrup business cements our commitment to participate in the development of "alternative" foods. High fructose syrup is continuing to find wide acceptance as a sweetener in a variety of products.

Hubinger figures were included in our earnings for the first time in the third quarter. We expect this company to become a significant profit center and to increase its contribution substantially in fiscal 1977 and beyond.

We feel confident that this move is only the forerunner of others yet to come, and that the future stewards of this company will recognize them as having been vital elements in a continuing pattern of growth. Encouraged as we are by the successes of the recent past, we cannot help contemplating a Heinz-of-tomorrow whose performance will make even today's outstanding record seem modest by comparison. The

groundwork has already been laid, and our position is firmly established.

As we look ahead, our optimism is clouded only by an inability to assess the impact of external factors over which we can have little or no control. Most disturbing is a perennial fascination with the notion that government can manipulate economic events in ways that will benefit society.

History has proved that it cannot. Example after example has demonstrated that unwarranted political intervention in the market system produces distortions, inflation, unemployment, shortages and a deterioration of investment, upon which any industrial society depends. Short of an outright takeover of business, the worst outcome of this meddlesome philosophy is an atmosphere of uncertainty that discourages individual initiative and leads to a wasteful mismanagement of labor and resources.

This phenomenon is most conspicuous in the activities by which people provide for their own nourishment. It should be clear by now that the best-fed people in the world are those who live under systems that encourage economic freedom. It is no accident that America—whose farmers epitomize the ideal of independence—leads the world in per capita output of foodstuffs. The reverse of the coin appears in those countries that rely upon state-run food and agricultural enterprises. Their primary accomplishment is, at best, a fairly equitable distribution of scarcity.

That lesson, compelling as it is, seems to have been lost on our legislators and on the endless agencies they have created. This election year has brought an outpouring of campaign rhetoric that, almost without exception, caters to the popular disenchantment with big government. At the same time, the political sector continues its attempts at invasion into every corner of private life without abatement. This contradiction between words and actions appears not to embarrass its perpetrators in the least.

Aside from its direct intervention, government has imposed upon us a subtle but unmistakable pressure that makes us divert a growing portion of our time and funds toward unproductive activities. Heinz, like other U.S. corporations, now devotes millions of dollars and tens of thousands of man-hours to compliance with the reporting demands of various agencies at all levels of government. This represents another turn of the screw on the vise that squeezes our economic liberties.

The hope remains that common sense will ultimately prevail. At fiscal year end, the world economy seemed on the verge of recovery. In the United States, there were signs of a sustained economic upturn and a slowing of inflation. The outlook improved in such key countries as West Germany and Japan. Elsewhere, there was reason to trust that world recovery, like world recession, might prove contagious.

We remain optimistic. No one can predict how well a company's fortunes will fare in a world of economic uncertainty, or for how long sound management can offset the encroachments of capricious government. Those factors aside, we see another year of uninterrupted progress as we turn away from what we hope are only short-term problems and dedicate ourselves again to the building of an organization even stronger than before. We see no impediment to our ability to maintain our 13-year-long profit growth rate of more than 10% annually compounded.

Henry J. Heinz II

Chairman

R. Burt Gookin

Vice Chairman and
Chief Executive Officer

President and
Chief Operating Officer

Marketing

Fiscal 1976, for much of its course, continued the familiar pattern of inflation-with recession. The upward push of costs pressed harder against the downward push of consumer resistance. Hopes for relief through higher prices were frustrated by government controls in some areas and by severe competition in others.

Heinz companies around the world felt the impact of these hard economic realities almost without exception. In the main, their responses were remarkably effective. They tightened controls wherever they could do so without loss of quality. They intensified their marketing of high-volume, profitable lines and cut back on marginal items. They pinpointed emerging and growing markets and moved to serve them with specifically tailored products and programs.

In the United States, the costs of labor, packaging and energy climbed. Pinched by rising prices, consumers altered their buying habits, weighing more carefully their purchases of convenience foods.

Heinz U.S.A., while it did not reach the heights of the previous year, continued at good levels in the face of these conditions. Through special promotions, it built sales for such basic lines as ketchup, 57 sauce, vinegars and baby foods. It improved its leading market share for ketchup and raised its share of baby foods to the highest levels in almost three years.

Company marketers correctly anticipated the "back to the kitchen" movement in home canning and preserving, and executed a program that boosted sales of vinegar in lighter, more convenient plastic containers.

Efforts to replace products that had been discontinued because of low margins concentrated upon a consumer desire for greater economy in meal preparation without loss of appetite appeal. Results of market tests proved promising for a basic white sauce, four home-style gravies, and "chili fixin's" with or without beans.

Heinz U.S.A. continued to strengthen its position in the immense foodservice business. Distributors praised a series of three seminars conducted to counsel them on increased profitability. As a result of this and other measures, more than 3,000 distributors named Heinz the nation's leading foodservice manufacturer for the fifth year in a row in a poll conducted by Institutional Distribution magazine.

The company developed six semicondensed "hearty stockpot soups" for restaurant chains. Frozen pizza sales for the school lunch market continued to grow, with hamburger pizza being added in the test markets.

A successful regional trial of Bloody Mary mix led to national distribution and to the extension of this Foodservice Division product into the retail market.

The acquisition of certain assets of Mellody Lane Foods Corporation in Lake City, Pa. put Heinz U.S.A. into the retail dessert market for the first time. The unit's bakery products will be offered for sale also to the foodservice industry.

Star-Kist recorded unit volume gains in spite of the fact that the price of hamburger—the most competitive protein alternative—fell in relation to that of tuna.

"9-Lives," now available in 24 varieties, set new highs for shipments and market share to become the nation's largest-selling canned cat food. Elsewhere in a generally strong pet food market, Star-Kist was completing national distribution at year end of three flavors of "Square Meal," a new soft moist cat food packed in easy-open cans with resealable plastic caps.

Ore-Ida made excellent gains in all of its product lines. This company has achieved dramatic brand acceptance and recognition, and the Ore-Ida and Heinz labels now account for virtually half of all frozen potato products sold in retail stores.

Two frozen vegetable varieties met with encouraging results in test markets, as did "La Pizzeria," a frozen four-flavor product virtually indistinguishable from freshly made pizza. An initial launch of Ore-Ida "Crispers," made from fresh and dehydrated potatoes and formed into french fry shape, covered about 30% of the U.S. market.

Ore-Ida's foodservice business also advanced as institutional customers continued to rely upon frozen potato products to hold

down labor costs and a significant decline in farm output narrowed the price gap between fresh and frozen potatoes. The company ventured outside the potato-vegetable area for the first time with a "Lunch Line" of frozen cookie dough for schools, colleges and hospitals.

Heinz-Canada registered outstanding gains in sales and profitability as the national economy turned upward in the second half of the year, the rate of inflation slowed and a two-year company program to achieve greater efficiency in procurement and manufacturing proved successful.

Nevertheless, inflation remained the country's foremost economic problem, leading the government to impose price controls in October. Under this uncertain climate, Heinz-Canada intensified its promotion of such basic lines as ketchup, baby foods, tomato juice, beans and spaghetti.

Britain's economic woes attracted the worried attention of the world. The rate of inflation went as high as 26%—the greatest of any industrialized country—before it began to subside. The value of the pound fell to an all-time low. Unemployment remained high. Government subsidy of certain commodities encouraged consumers to reduce their purchases of convenience foods in favor of home preparation.

Heinz-U.K. rose above these difficulties to score substantial gains in earnings, thanks in part to better cost controls and accelerated marketing activity. Basic product lines held and even increased market shares, with only snack foods declining.

Heinz-U.K.'s share of the canned soup market climbed to a record 65%, helped by the introduction of two low calorie soups that the grocery trade voted among the five top products to reach the market during the year. In another appeal to dieters, the company offered four canned calorie controlled meals, single-serve products rated at only 350 calories each.

The company acted vigorously to maintain its more than two-thirds share of a baby food market affected by the declining birth rate. The relaunch of baby food in jars, with formulations well above the market average in nutritional levels, generated a 26% increase in sales of this category.

Two new varieties joined the popular "Beanz Mealz" line. Beans with beefburgers exceeded sales targets, and beans with mini-frankfurters were in national distribution by the end of the year.

"Noodle Doodles," a pasta snack for children, won more than 10% of total consumer purchases of canned pasta within three months after its first appearance, helping to push the company's share of this huge market to a record 78%.

Heinz-U.K. maintained its leadership in ketchup at more than one-half of the market.

An exceptionally long and hot summer helped to send sales of salad varieties to new peaks, with salad cream alone scoring a 43% increase. New line additions included a low calorie salad dressing, variety relish, celery salad, pickled onions, beetroot, and spicy 57 sauce.

Sales of fruit pie filling soared by 45% with the renewed popularity of home baking. The British company now holds the number one position, with more than one-third of the market, in what one survey established as the second-fastest-growing category subject to measurement.

A second generation of aseptically canned milk desserts achieved national distribution at year end.

In spite of a recessionary cutback in dining out, the company's Foodservice Division sales jumped by 11%, with market shares being retained for all major product areas and increased for salad cream. Sales of individual canned fruit juices went up by 20%. Ketchup sales were helped by introduction of a new one-gallon pack.

In Italy, Plasmon turned in a most satisfactory record and came to the end of the year with its financial and marketing position strengthened.

The merger into Plasmon of Diet-Erba, another large Italian baby food processor, begun the year before, was completed.

Major progress in the integration of these two important baby food companies helped to maintain lira profits at high levels.

Plasmon continued to outpace the rest of the industry in all of its major lines—biscuits, strained foods, pasta products and fruit juices. The inclusion of Diet-Erba products gave it more than 63% of the postweaning baby food market. Share of the more highly segmented preweaning market was a top-ranking 29%. Diet-Erba's formula milk line moved into a strong second place, gaining several share points.

New product activity brought the introduction of "Ergocappuccio," a milk modifier for children in the 4-14 age group; a premium-priced line of "first month" freeze-dried strained infant foods; a reformulated "first biscuit" more soluble and digestible than its predecessor; and a newly positioned line of Ergo biscuits for school-age children.

The economic problems that plagued Britain and Italy were present to a lesser extent in the four countries served by the Heinz Central Europe organization—The Netherlands, Belgium, France and Germany. Every sector of Heinz business improved, with sales up by 22% for the year and more than 75% higher than they were three years earlier.

Grocery sales led the way in all four countries, with gains of 23-45%. Shares of market for ketchup held up well. Sandwich spreads, the leading Dutch line, were successfully introduced into Belgium and Germany. Canned salads continued strong in The Netherlands. New products included two varieties of beans, one of spaghetti, and a line of sauces in plastic squeeze containers.

In Venezuela, Alimentos Heinz emerged with a strong advance in unit sales volume. The company upped its baby food shipments by 27% and its ketchup shipments by 24%.

Heinz-Australia's sales were the best ever recorded.

The company held on to 80% of the marginally declining baby food market, which now shows signs of stabilizing. It raised its shares for canned soups to 37% and for beans to a record 60%, and boosted its leading share for canned spaghetti. A national launch of six calorie controlled soups met with immediate and wide acceptance.

Foodservice continued to be the fastest-growing area for Heinz-Australia, with dollar value of sales up by 58%, well ahead of targeted goals. Improved product range, variety mix and sizes provided a base from which to gain a better distribution network.

The Stanley Wine Company sold two-thirds of its output in labeled containers, marking further progress in its transition from a seller of bulk wines to a major marketer of the more profitable branded products. That figure will rise to 90% in fiscal 1977.

A premium-quality champagne, launched in limited quantities, was completely sold out within a few weeks. Stanley also introduced the first of a special selection of wines from the best growing areas of Australia. Sold under a "regional selection" label that carries full details on their origins, many of these premium wines have already become collectors' items.

The Greenseas operation pursued a successful marketing strategy, based upon brand loyalty to its canned tuna and salmon lines, to swell volume by 12%. Dollar sales were up by 34% for Epicure Continental Food Company, which markets pickles and relishes, and Baltic Merchandising, an importer of specialty foods.

Nichiro Heinz, with a 22% sales jump, attained the highest profits in its 15-year history, despite Japan's worst economic reversal since World War II.

Demi glace sauce and apple cider vinegar scored impressive sales gains—240% for the latter—in the retail market. In the foodservice market, spaghetti meat sauce and demi glace sauce sold at significantly higher levels.

Two new foodservice products—Italian sauce and concentrated bouillon—were readied for market testing at year end after producing favorable results in restaurant trials.

The Portuguese company achieved a 25% sales increase in consumer products, chiefly due to larger consumer expenditures for canned foods.

Facilities

The massive output typical of any large food processor requires an array of large and sophisticated physical facilities incorporating the latest advances in technology, constantly being upgraded to provide optimum return on investment.

In recent years, two factors have combined to sharpen the search for efficiency, without which margins can be seriously eroded: the cost push of inflation and a general shortage of capital.

Fortunately, H. J. Heinz Company is in a position to pursue a long-range program that keeps it one of the world's most efficient food processors, exercising strict economies without loss of production effectiveness.

A review of fiscal 1976 reveals the elements of that program—expansion of facilities to take advantage of new market opportunities, improvements to cope with rising costs and, where necessary, pullbacks to remove the dead weight of operations less profitable than they should be.

In Pittsburgh, Heinz U.S.A.'s continuing activities embraced a new multifuel power plant, new equipment for ketchup and sauce lines, and installation of a high-technology inspection system for baby foods. A new system for processing foodservice pouch containers improved package quality and production while reducing costs.

Faced with a new municipal waste treatment system that would have raised costs beyond reasonable bounds, Heinz U.S.A. reluctantly closed its Bowling Green, Ohio factory at the end of the 1975 tomato season. Star-Kist's pet food operation there moved to an expanded facility at Muscatine, Iowa. Other production formerly handled at Bowling Green was transferred to the Heinz factory at nearby Fremont, which is being enlarged to take care of the volume. Tomato processing facilities were expanded also at the Tracy, California factory.

Production at Heinz U.S.A.'s second frozen pizza processing plant, in Lithonia, Georgia, will begin before the end of calendar 1976.

Star-Kist has now installed new pet food production lines at all of its factories. At Terminal Island, California, a new unit has reduced outside cold storage costs and negotiations have been completed for acquisition of adjacent facilities to produce canned mackerel and to step up pet food output. Cold storage expansion and completion of other facilities at Mayaguez, Puerto Rico will enable the company to boost production by 10,000 tons annually.

Ore-Ida completed construction of four fresh-potato warehouses with long-term storage capacity of 28 million pounds each. These facilities are equipped with the most modern atmosphere control systems, making it possible to store raw product for longer periods in order to extend the production cycle to an almost year-round basis.

A new product development laboratory at Ontario, Oregon has doubled the area available to researchers working on new frozen products and extension of current product lines. Work is proceeding on methods for the conversion of potato wastes into useful starches and sugars. Successful experiments indicated that this move will sharply reduce outside purchases of corn syrup in fiscal 1977.

Also at Ontario, the company began work on a major receiving dock modification that will permit around-the-clock potato operations regardless of weather.

A unique radio-dispatched communications system in the Burley, Idaho factory's cold storage operation has improved inventory control of finished goods and increased labor and equipment efficiency. Under a program to further the use of electronic techniques in factory processing, Ore-Ida has also developed a potato sorter more advanced and more efficient than anything else on the market.

Acquisition of The Hubinger Company represented the year's most important move toward enlargement of Heinz capabilities. Hubinger is a major factor in the corn wet milling process. With it came a main factory at Keokuk, Iowa capable of processing 50,000 bushels of corn a day. In addition, there are syrup bulk filling stations in several U.S. locations and two dry storage distribution warehouses, in Illinois and New Jersey.

During the year, Hubinger bought and modernized a grain elevator at Corydon, Iowa with a storage capacity of 1.25 million bushels.

Completion of a high-volume barge terminal on the Mississippi River at Keokuk permits shipment of pelletized feed for export at substantial savings and expedites a new venture in purchase of corn and soybeans for resale in the export market.

At year end, Heinz announced further progress toward a 60% expansion of Hubinger's corn grinding capacity and plans for construction of a refinery at Keokuk to manufacture more than 500 million pounds of high fructose syrup annually. This step will enable Heinz to enter the fast-growing high fructose corn syrup sweetener business.

Heinz-Canada completed the final phase of a three-year program, which resulted in a greatly enlarged tomato paste processing facility at the Leamington, Ontario factory. The program was designed to ensure adequate production and to make full use of the company's advanced tomato paste storage methods.

Heinz-U.K.'s capital investments emphasized greater capacity, higher efficiency and better working conditions. At Harlesden, 50 color sorters for diced vegetables will replace a battery of obsolete machines and a deionizing machine will reduce nitrate levels in water. Kitt Green extended bean and sausage capacity, installed new ventilation systems to overcome heat gains and began an addition for the relaunch of baby food in jars. A new plant replaced the water cooling system at Standish and modifications of manufacturing equipment were begun to allow the use of frozen fruit in puddings.

Heinz-U.K.'s largest single expenditure went toward a new production line for milk puddings.

A major expansion of the company's computer capacity supports new applications in materials control and in the monitoring, control and allocation of maintenance resources. It also provides more frequent runs for a cash forecast model and a product profitability simulation, both of which were developed in recent years.

In Italy, Plasmon announced that the Latina factory's biscuit line was in full production. New facilities at the Milan factory doubled drying capacity for cereals. Diet-Erba's main factory at Ozzano Taro—near Parma, and only 60 miles from Milan—added new plants to treat liquid waste, to package formula milk and to produce table-water powders. An extension of the finished goods warehouse at the same location was completed. Manufacture of certain products was switched among the three factories to lay the foundation for greater flexibility.

The Central Europe organization proceeded with a careful program to improve operations and cut costs in the Dutch factory at Elst. Among the more notable advances were a new high-speed labeler for the ketchup line; an innovative new machine to reduce labor and raw materials costs in the handling of tomato paste cans; installation of a large tank to promote maximum savings from the newest corn sweeteners; and a general upgrading of existing buildings.

New sterilizing and automatic packing equipment at Heinz-Australia's Dandenong factory came into full operation, helping the company to achieve the highest level of operating efficiency in its history.

Major emphasis, however, focused upon two subsidiaries. The Stanley Wine Company completed construction of a cask hall storage area, made further progress in bottling and filling facilities, began work on increased fermentation capacity, and installed a continuous-flow dispenser for cultured yeast. The Greenseas operation added to its on-site tuna holding capacity, further mechanized its fish freezing and handling methods, and consolidated all its fish product packing and labeling operations at its Eden factory in the interest of increased efficiency with respect to administration and transport.

The introduction of new bottle-filling equipment effected major labor savings for the Portuguese company.

Land and Sea Resources

Fiscal 1976 produced further evidence of progress in our unceasing drive for self-sufficiency in procurement and for sustained leadership in agricultural technology.

A domestic tomato glut found Heinz U.S.A. less affected than its industry counterparts as the company kept its inventories in good balance and bought a smaller percentage of its tomato requirements in the California market, where overproduction was most severe, than did its competitors. In addition, development of what may be the industry's most advanced tomato paste storage methods helped to minimize the impact of crop variations.

Heinz U.S.A. unveiled a new tomato variety that proved exceptionally adaptable to mechanical harvesting, with outstanding quality and yield in arid growing areas. A new method for recovery of tomato seeds offers higher germination and improved quality, and an eight-year program culminated in the perfection of automatic color-sensitive electronic sorting devices for mechanical harvesters. New techniques to control the amount of soil and extraneous material in bulk tomato deliveries mean lighter loads on waste water facilities and reduced potential for raw material damage.

Four new varieties of cucumbers —another important crop for Heinz U.S.A.—were developed for commercial trials in both humid and dry growing areas.

Fishing for certain species of tuna is affected by regulations of the National Marine Fisheries Service, promulgated under the Marine Mammal Protection Act of 1972, concerning the incidental taking of mammals, principally porpoise. The Service has been ordered by a federal district court to cease issuing fishing permits that allow for such incidental taking until it complies with certain requirements of the act. The order of the United States District Court has been stayed pending appeal of the case. The Service has, in the meantime, set a specific limit on the number of porpoises that may be taken during 1976. The tuna industry is deeply concerned about this issue and has over the past few years instituted a number of changes in its fishing techniques and procedures that have substantially reduced porpoise mortality. It is always difficult to predict the outcome of litigation of this nature; however, we are confident that continuing co-operation among the affected parties will avoid any substantial adverse impact on the tuna industry arising from the enforcement of the act or from the court's decision.

Ore-Ida continued its program to reduce raw product handling injury, with financial incentives for the contract growers who supply it and seminars and field demonstrations to instruct them in proper potato harvesting procedures.

Heinz-Canada had satisfactory supplies of tomatoes in spite of four days of devastating late-season rain that inflicted severe damage upon that country's crop. Also hit by what proved to be the most unusual growing season in Heinz-Canada's 65-year history were pickle, pear and peach yields.

Thorough planning enabled Heinz-U.K. to avoid most of the impact of a poor North American bean harvest. The prices of other key ingredients were held at relatively stable levels, except for dairy and meat products, which are affected by Britain's membership in the European Economic Community. In spite of domestic upheavals, the Portuguese company's supplies of tomato paste to Heinz-U.K. remained at high levels, as yield-per-acre went up.

The Heinz Sagima operation in Morocco processed 22,000 tons of high-quality tomatoes from 1,300 acres in its first year. Plans call for a 50% increase in both acreage and production facilities during the current season.

Favorable weather patterns provided excellent conditions for most of the crops used by Heinz-Australia. Tomato yields were high in all districts, with records set for some mechanically harvested crops, three-fourths of which were grown from a new variety developed by Heinz.

A major price increase for wine grapes set earlier by the South Australian Price Commissioner, together with a good 1975 vintage, created a surplus of wine in some areas, but Stanley Wine was able to hold its Clare vintage at prices close to those of the year before.

Public Service

The economic conditions that influenced manufacturing and marketing operations in fiscal 1976 also dictated unremitting attention to what has become known as corporate social responsibility.

Heinz continues its efforts to ensure the application of Equal Employment Opportunity standards for all employees as a matter of sound business practice. A corporate task force composed of senior management representatives from the domestic companies regularly reviews and monitors the activities of each affiliate in the United States.

The Heinz domestic companies accelerated a purchasing program to encourage business relationship with minority-owned vendors.

Pittsburgh employees in the Heinz Youth Motivation Task Force turned in their eighth consecutive year of effort to encourage inner-city high school students to continue with their education.

On a national scale, the company's century-long concern for better nutrition was highlighted by distribution of 500,000 free copies of a new guide for safe preparation of home-canned foods. The Grocery Division won Family Circle's Gold Leaf Award for its "Back to Basics" program, which produced four publications on child feeding and nutrition.

Heinz U.S.A. made noteworthy progress in air and water pollution control at its various factory locations. It signed an agreement with the city to share construction costs for a new waste treatment plant in Tracy, California and worked closely with Muscatine, Iowa officials in the development of that city's treatment facility, scheduled to begin operation late in 1976.

The company donated more than 6,000 cases of food in the aftermath of Guatemala's disastrous earthquake and contributed products for drought victims in Haiti, Bangladesh and the Sahara through various relief organizations. Other shipments went to drug rehabilitation centers in the United States.

Ore-Ida established a program that awarded scholarships to 14 young people in nine colleges and universities in fields considered important to the frozen food industry.

The Keokuk, Iowa Jaycees honored The Hubinger Company with its Industry of the Year Award for 1975, citing longtime support of community activities as well as contributions to the city's economic health.

Heinz-Canada continued its support of community activities and extended its work in consumer education, nutrition research and public information.

The company enhanced its excellent reputation for environmental protection by sharing with local authorities the cost of a waste treatment system to serve its factory and the community, and by exceeding government standards for air pollution control.

Grants to research projects at the University of Toronto furthered the company's active role in assisting the medical profession and government agencies in the field of infant nutrition.

Heinz-U.K. conducted a second Social Responsibility Audit to assess continued performance in such areas as product quality and safety, employee health and safety, consumer relations and environmental control.

The company increased the sums used to fund the Heinz Fellowships in Pediatrics, which enable Commonwealth and British specialists to undertake post-graduate studies in the United Kingdom and in developing countries.

The Italian company continued its active and highly respected program for the advancement of nutritional and pediatric knowledge among the medical and scientific communities.

Alimentos Heinz joined with the Venezuelan government in a pilot project for tomato planting at prison farms and supplied technical assistance for the social rehabilitation of inmates.

Heinz-Australia donated food for children evacuated from South Vietnam after the fall of the government there.

How shall we recognize our Bicentennial?

Some prefer to look back, celebrating the nation's origins.

Others turn to the future, speculating upon what the next century may bring.

Each approach has its merits. Each has its limitations: in the first case, of incomplete documentation and disputable interpretation; in the second, of all the uncertainties that accompany any attempt to imagine the unimaginable.

We have settled upon a third and easier alternative: to examine where we are. Needless to say, our reflections keep returning to the subject we know best—that of food.

The essay that follows and the pictures that accompany it are intended as a keepsake that may delight, inform and even instruct those who come upon it in the decades ahead.

Herewith we assume the pose of a 21st-century social commentator trying to describe what they were like, those quaint Americans who caught the world's fancy with their foibles and accomplishments in that distant year of 1976.

One looks upon our ancestors of a century ago with some of the fascination that attends the examination of an ant colony.

The simile is not inappropriate. The Americans of 1976 A.D. were noted for their mobility. They ranged across the land with a restlessness that transformed cities and entire regions. Fewer and fewer of them chose to spend out their lives in the places where they had been born.

This mobility expressed itself in other ways. Most significant was the abandonment of generation-to-generation patterns of occupation. The children of immigrant laborers broke loose to become physicians, businessmen, scientists, elected officials—no avenue was closed. Women cast off the restraints that had bound them to activities strictly prescribed and limited. Industrial managers shifted readily into government and education, while academics and bureaucrats moved just as easily to take their places.

The analogy to an ant colony presents itself again when one tries to capture those Americans of the 20th century in order to hold and classify them. It cannot be done, for the chief characteristic of their society was that it had no chief characteristic. Instead, it offered a variety of options unparalleled in all of previous history and unmatched by any other nation of that period.

This may have been the most important achievement of the American experiment as it reached its 200th anniversary—that it had provided for its citizens that vast freedom of choice which is the best evidence of a successful political and economic system.

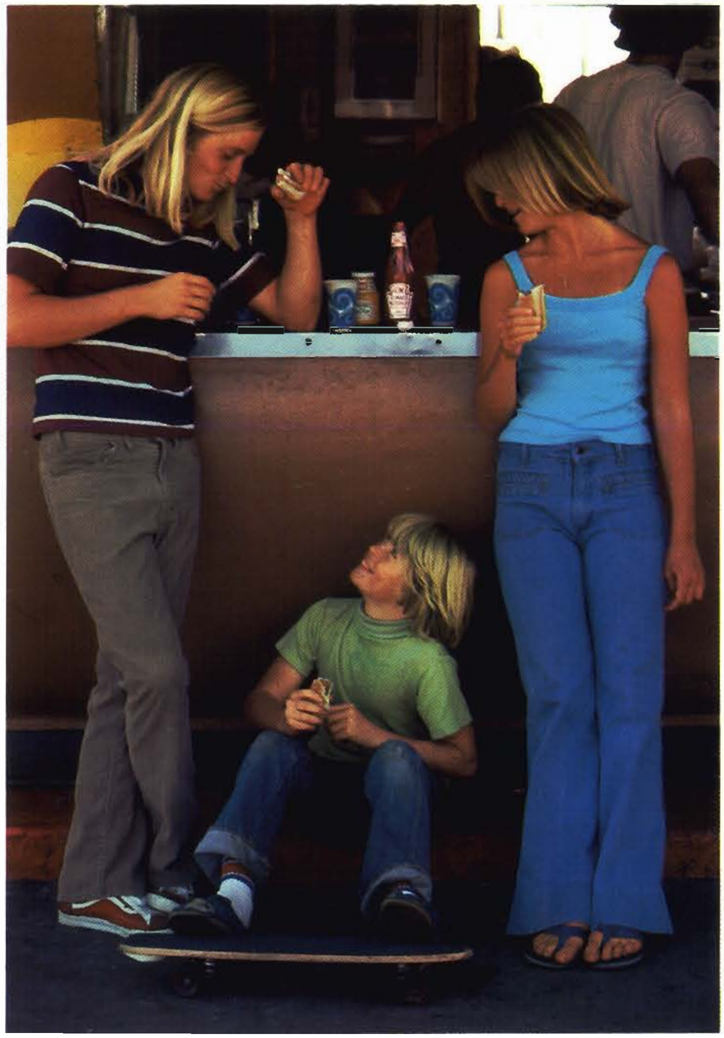
It hardly mattered that some adhered to the established religions of their forefathers while others rallied to a smorgasbord of beliefs, ancient and new—that some looked for escape in cinema and television while others pursued strenuous expressions of self on the tennis courts and ski

The land was rich, and providentially so, for the search for food was the first and most pressing occupation of those who came to settle it. Over the centuries, hard-working Americans tilled the soil with such success that fewer and fewer were required to feed more and more. Out of this abundance came not only the basis for a great industrial society, but lifesaving relief for the hungry of other lands.

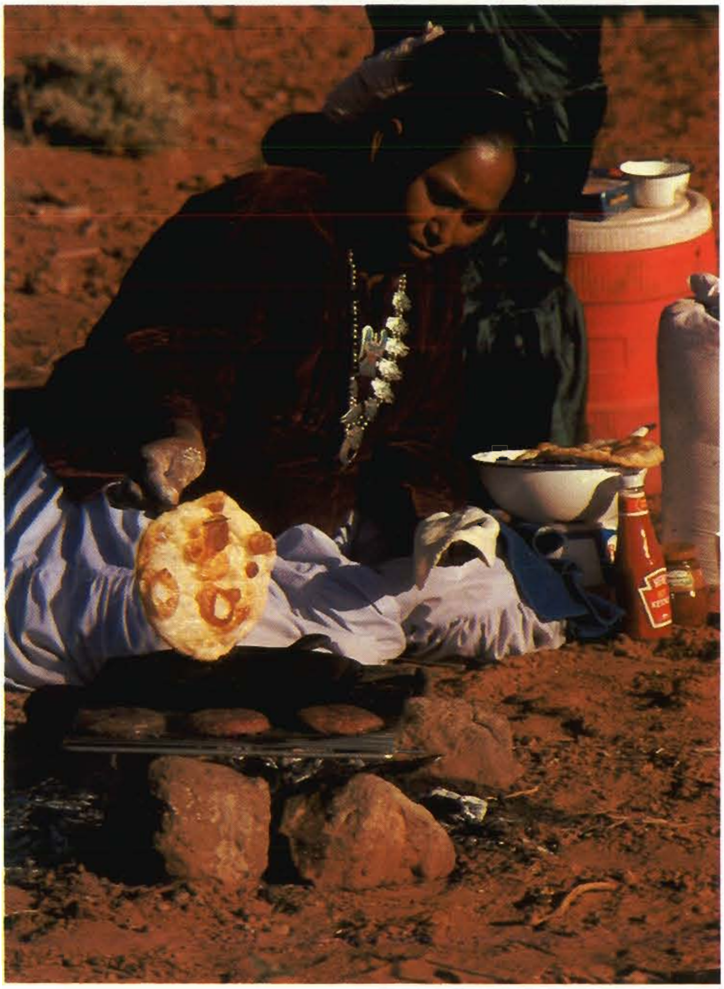
Lacking the centuries of evolution that had shaped the cities of Europe and Asia, Americans invented their own urban landscapes. The 20th century heard the crash of demolition, saw the vertical aspiration of skyscrapers, entertained every architectural fancy that came along. Still, it strove to retain what was precious in the old. In San Francisco, a glistening row of scrollworked Victorian structures survived the Great Fire of 1906 to house three generations more.

Slowly but inexorably, like the giant plates underlying the earth's surface, the strata of society shifted. The descendants of slaves stood tall and took their hard-won places. Even—or especially—in those areas where the barriers had been strongest, they prevailed, and in so doing enriched their communities. They restated for all the ancient dream of liberty, and at every level served the nation well.

Blessed with long coastlines on both of the world's major oceans, Americans harvested the sea to enrich their diets. For those who lived in the tiny fishing towns, existence involved a constant accommodation with elemental forces, symbolized by strings of sturdy lighthouses that both welcomed and warned. Their nets and their pots and their lines sent a steady stream of offerings inland to vary the nation's menus.



As if in rebellion against the mighty engines their civilization had invented, they turned to means of locomotion that created no pollution and that depended primarily upon natural forces. For the sailors, there was the restless global flow of wind. For bicyclists, the flex and tension of thigh and calf. For surfers, the endless breakers driving landward. For skateboarders, that old nemesis and ally, simple gravity.



To those whose ancestors were here before the sailing ships came, the passing of two centuries was but an episode. They lived on what was once the floor of an ocean, whose receding waters had etched the rocks to remind man of his planet's antiquity. Fried bread and hamburger, cut velvet and handcrafted jewelry—old and new blended in a timeless valley.

Those who came from abroad into America's open embrace first set foot in the cities. Many of them stayed. Here one could find the world in microcosm, every race, every color, every creed and every tongue. Sometimes painfully, sometimes with the greatest of facility, the immigrants fitted their various skills into the commodious economy as they settled into this last, best refuge. The voyage had ended; the journey had begun.

trails—that some parceled out their leisure time in familiar domestic surroundings while others roamed the globe in quest of the exotic—that some adapted to the frenzies and amenities of city life while others sought the tranquility of the suburbs (only to discover that, in many cases, the city had followed them, disguised by the green spread of tree and lawn).

What mattered was that they lived in a society where all these individual preferences were tolerated, and could indulge in any of them without fear of censure.

Of the many signs they left behind, none is more revealing than the various means by which they fed themselves—not always wisely, not always elegantly, but indubitably with an exuberance that seemed to say: This is our daily proof of a philosophy under which many things are permissible and most things possible.

There was no national diet, for they had embraced the best the planet had to offer. Their cuisine bore the marks of heartland Europe, the Orient, the lands that bordered the Mediterranean, the New World offspring of the Iberian peninsula. Truly, the "melting pot" had implications culinary as well as ethnic.

All this they had achieved over the decades by constructing a vast and intricate system through which they gathered the riches of land and sea and made them available in convenient forms accessible to all. That system overcame the old dietary disciplines of the seasons. It conquered the growing distance between farm and market. It conserved resources that might have been overtaxed by the sheer pressure of population.

So smoothly did the system function that 20th-century Americans came to take it for granted. Dining was only rarely an event. More often, it served to punctuate the day, as respite from work or a pleasurable interruption of play. Neither was it confined to interior areas formally set aside for the purpose. A sidewalk would serve, an open field, an illuminated patio, the tailgate of a station wagon.

This, too, spoke of a people free to make their own decisions. Gathered over the years from many lands—each, in a sense, a pioneer in time—Bicentennial Americans enjoyed the greatest gift any society can bestow: the gift of expanding choice in all the details of their daily living.

Financial Section

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Form 10-K Information

The financial statements appearing in this Annual Report to shareholders are substantially the same as those which the company was required to file with the Securities and Exchange Commission in its Annual Report on Form 10-K. In compliance with SEC regulations, the Form 10-K Report contains certain supplemental financial information and other related data. The company will furnish a copy of Form 10-K without charge upon written request. Such request should be directed to Corporate Public Relations Department, H. J. Heinz Company, P.O. Box 57, Pittsburgh, Pennsylvania 15230.

This section presents:

- a discussion of operational results for 1976 compared with 1975, and for 1975 versus 1974;
- explanations of variations in selected accounts within those years;
- a discussion of significant elements relating to the company's financial position;
- other financial and operating information.

We suggest that the comments that follow be read in conjunction with the **Consolidated Financial Statements, Notes to Consolidated Financial Statements** and the **10-Year Summary of Operations and Related Data.**

During 1976, we changed our method of translating foreign currencies. We discuss this change, together with its impact upon the consolidated financial statements, under Accounting Change on page 35 and in note 9 of the Notes to Consolidated Financial Statements.

Discontinued Operations

During 1973, the company reported the disposition of certain operations and the expropriation of a subsidiary. All our financial reports since that time have segregated the discontinued operations in order to present the continuing operations of the company on a comparable basis over a period of time.

All sales and income information in the financial section includes continuing operations for 1967 through 1973. There were no discontinued operations after 1973. The results of operations for the discontinued companies appear in the 10-Year Summary of Operations and Related Data.

Sales

1976 vs. 1975

Sales for 1976 were nearly $1.9 billion, an increase of $219 million, or 13.2%. This is the 13th consecutive year of improvement. The annual compound growth rate has been 12.1% for the past 10 years and 15.0% for the past five.

Sales by domestic companies, including those in U.S. possessions, were $1.1 billion, up by 16.3%, and represented 59% of consolidated sales. Sales by foreign operations rose by 9.0%, from $702.1 million to $765.2 million.

The worldwide sales increase of 13.2% was accounted for as follows:

- 25% due to volume;
- 45% due to increased prices, net of the effect of lower exchange rates;
- 30% due to inclusion of Hubinger for six months and Diet-Erba for the entire year.

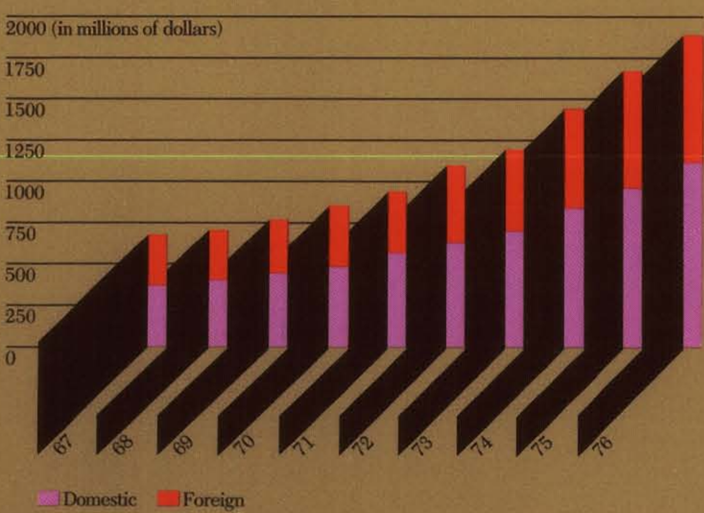
The domestic companies' volume improved, especially during the last six months of the year, and prices remained relatively stable as the U.S. inflation rate eased. Selling prices rose in most overseas countries as inflationary trends continued. Consumer resistance kept volume relatively flat.

1975 vs. 1974

Sales for 1975 rose by $225 million, or 15.6%, to almost $1.7 billion. This rise was attributable to selling price increases dictated by escalating labor, material and transportation costs. It reflected, in part, the end of U.S. price controls at the close of fiscal 1974 and the termination of a commitment to maintain price levels for certain products through the end of the first quarter of fiscal 1975.

Contributing to lower volume performance was the continuation of a worldwide program to eliminate low-margin and high-capital-intensive items from product lines in an effort to direct more attention to those items that yield better returns.

Sales, Domestic vs. Foreign



Cost of Products Sold

1976 vs. 1975

Cost of products sold went up by 11.9%, from $1.1 billion to more than $1.2 billion. The dollar increase was due to greater volume and the higher cost of ingredients, packaging materials and labor. The gross profit margin improved, from 34.0% to 34.8%, and reflected a worldwide pricing strategy that attempts to respond to cost increases on a timely basis.

1975 vs. 1974

Cost of products sold rose by $158 million, or 16.8%, from $940 million. This increase reflected the higher cost of raw materials, packaging materials, utilities and labor resulting from significant inflationary trends in the United States and, to a greater degree, in the European countries and Australia.

Selling, General and Administrative Expenses

1976 vs. 1975

Selling, general and administrative expenses climbed from $429 million to $510.3 million. This 19% increase—against a sales increase of 13.2%—can be traced largely to advertising expense, which rose by $40.9 million, or 30%, to $177.1 million as existing product lines were expanded into new markets and several new products were introduced on a worldwide basis.

1975 vs. 1974

Selling, general and administrative expenses went up by 9.2%, from $392.7 million, as costs related to selling, distribution and warehousing activities escalated.

Interest Expense

1976 vs. 1975

Interest expense declined by 26.2%, to $22.9 million. This was the result of a sharp reduction in short-term borrowings. The average for the year was reduced from $185.7 million to $114.9 million. In addition, the average interest rate on such borrowings fell from 11.3% to 9.4%.

1975 vs. 1974

Interest expense increased by $9.9 million, or 47.2%, as a result of higher average borrowings and higher interest rates around the world. The impact of higher inventory levels contributed to increased borrowings.

Provision for Income Taxes

The provision for income taxes increased by 7.4%, from $50 million to $53.7 million. The effective income tax rates for 1974, 1975 and 1976 were 38.9%, 42.2% and 41.4%, respectively.

The company provides for taxes at the statutory rates in effect on pretax income reported for financial statement purposes; accordingly, the increase in the provision was primarily attributable to higher earnings. An analysis of effective tax rates for 1975 and 1976 appears in note 6 of the Notes to Consolidated Financial Statements.

Income

1976 vs. 1975

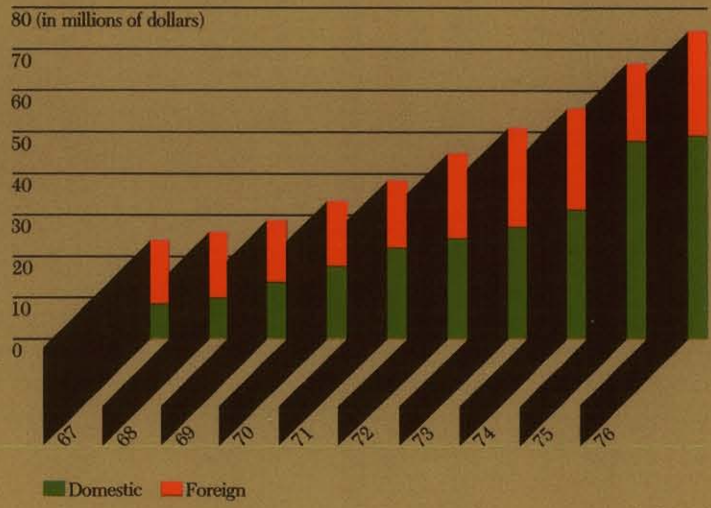
Net income of $74 million was $10.1 million, or 15.8%, higher than last year's income from operations and $7.4 million, or 11.1%, higher than last year's net income, which included a nonrecurring gain of $2.7 million from the excess of insurance proceeds received over the book value of assets destroyed in connection with fire losses at a domestic subsidiary.

Net income has now grown at an annual compound rate of 13.3% for the past 10 years and 14.1% for the past five.

Domestic net income of $48.7 million was 9.1% higher than last year's domestic operating income of $44.6 million and 2.8% higher than last year's domestic net income of $47.3 million, which included the nonrecurring gain discussed above. A somewhat slower rate of growth in domestic earnings was primarily due to increased expenditures for advertising in connection with new product introductions.

Domestic net income represented 66% of consolidated income, down from 71%. Earnings from foreign operations were $25.3 million, up by 31.4% from $19.3 million. The contribution of these earnings to consolidated income went from 29% to

Income (from continuing operations), Domestic vs. Foreign



34%. The improvement in foreign earnings is gratifying in light of adverse economic conditions in many of the countries in which the company operates and lower exchange rates during the year. Price controls continue in the United Kingdom and Australia and were instituted during the year in Canada.

1975 vs. 1974

Net income was 19.9% greater than 1974's income of $55.5 million before an extraordinary item. Income for 1975, excluding the nonrecurring gain, was up by 15.0% over the preceding year's income before the extraordinary item.

The 1974 income excludes extraordinary income of $8.8 million. This resulted from recoveries in connection with two developments for which an extraordinary charge was recorded in 1973–the phase-out of the company's Mexican operations and the Peruvian government's expropriation of certain assets of a subsidiary. The extraordinary credit in 1974 is after estimated Federal income taxes of $7.7 million.

Earnings Per Share

1976 vs. 1975

Primary earnings were $4.82, an increase of 14.2% over the $4.22 earned from operations and of 9.5% over the $4.40 earnings, which included 18 cents from the nonrecurring gain.

The annual compound growth rate has been 10.9% for the past 10 years and 13.5% for the past five.

1975 vs. 1974

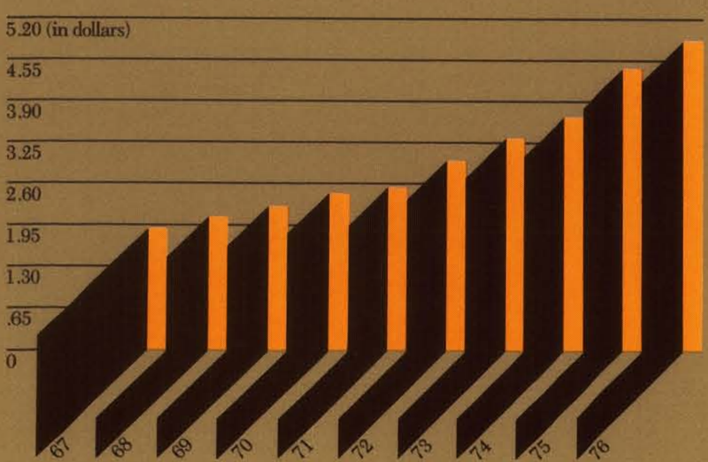
Primary earnings were up by 19.9%, with earnings from operations up by 15.0%, over 1974's earnings from operations of $3.67, which excludes extraordinary income of 59 cents.

Dividends

In 1976, the dividend paid on common stock was increased for the 11th time in the past nine years. The amount paid for the year was $1.30 per share, up from $1.16 paid in 1975.

Preferred stock dividends of $1 million included dividends for a portion of the year on the new $1.70 third cumulative preferred stock, issued in connection with the Hubinger acquisition, discussed elsewhere in this Financial Review. The annual preferred dividend requirements of the currently outstanding shares of this stock are approximately $3.1 million.

Earnings Per Share
(from continuing operations)



Quarterly Results

The following table shows quarterly sales, net income, and earnings per share for each of the past two years. Quarterly results have always been influenced by seasonal factors inherent in our business. In future years, currency rate fluctuations also may affect results to a greater extent than in previous years because of the change in accounting for unrealized gains and losses due to such fluctuations. This change, discussed more fully below, required a restatement of net income and earnings per share for the first three quarters of 1976. Net income and earnings per share as originally reported appear elsewhere in this Financial Review. Sales have not been restated.

	1976	1975	% Change
Sales ($000)			
First	$ 434,313	$ 390,340	11.3%
Second	464,018	450,907	2.9
Third	460,431	369,033	24.8
Fourth	523,597	452,421	15.7
Total	$1,882,359	$1,662,701	13.2%
Net Income ($000)			
First	$ 15,232*	$ 11,593	31.4%
Second	15,511*	17,301	(10.3)
Third	13,837*	11,650	18.8
Fourth	29,380	26,023**	12.9
Total	$ 73,960	$ 66,567	11.1%
Earnings Per Share			
First	$ 1.01*	$ .77	31.2%
Second	1.02*	1.14	(10.5)
Third	.91*	.77	18.2
Fourth	1.88	1.72**	9.3
Total	$ 4.82	$ 4.40	9.5%

*These amounts have been restated to reflect the adoption of the new foreign currencies translation method.

**Includes $2,724,000, or 18 cents per share, from a nonrecurring gain from settlement of fire loss claims.

Accounting Change

During the fourth quarter of 1976, the company adopted the Financial Accounting Standards Board Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements," issued in October, 1975. Net income and earnings per share for the first three quarters of 1976 have been restated to reflect what the results of operations would have been if the change had occurred at the beginning of the year.

1976 Quarter	As Reported	Restated
Net income		
First	$12,848,000	$15,232,000
Second	19,182,000	15,511,000
Third	14,001,000	13,837,000
Earnings per share		
First	$ .85	$ 1.01
Second	1.26	1.02
Third	.92	.91

Prior-year financial statements have not been restated, since the retroactive application of Statement No. 8 was not significant. Unrealized exchange losses resulting from the translation of foreign currency financial statements amounted to $0.8 million in 1976.

For additional information on the company's foreign operations, see note 9 of the Notes to Consolidated Financial Statements.

Acquisitions

The acquisition during 1976 of The Hubinger Company, a producer of corn syrup and starches, was recorded, for accounting purposes, as a purchase in the amount of $42.1 million. The excess of the purchase price over the net assets acquired has been assigned to the tangible assets, whose value was based upon an independent appraisal. In connection with the acquisition, the company issued 1.8 million shares of a newly authorized third cumulative preferred stock.

On a pro forma basis, assuming the purchase had occurred at the beginning of 1976, consolidated sales, net income and primary earnings per share for the year would have been $1.9 billion, $78.6 million and $4.98, respectively. Comparable amounts for 1975, assuming the purchase had taken place at the beginning of that year, would have been $1.7 billion, $72.1 million and $4.57, respectively.

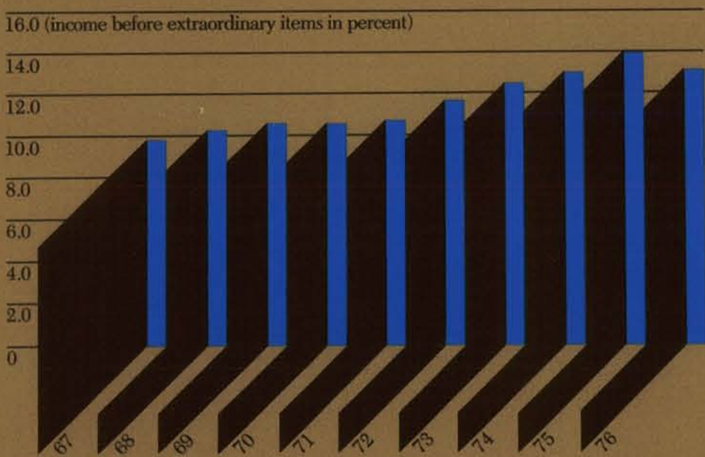
Return on Shareholders' Equity

The 13.4% return on average shareholders' equity was down from last year's 14.0% (13.4% excluding the nonrecurring gain). This reduction was caused principally by the substantial increase in the year-end shareholders' equity resulting from the Hubinger acquisition. This important ratio has risen substantially over the past 10 years, and the company is continuing its efforts to improve it further.

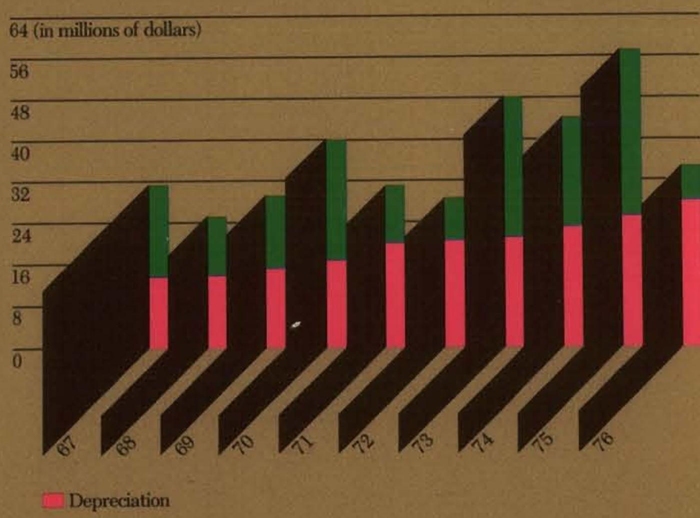
Capital Expenditures

Capital expenditures during 1976 were reduced to $34.7 million, reflecting an ongoing program that restricts spending to those projects that promise returns in excess of historical levels. Expenditures for 1976 were divided almost equally between domestic and foreign operations. Foreign capital expenditures are generally funded locally by the subsidiaries. Capital expenditures covered production expansion and modernization, environmental controls, and replacement of existing facilities.

Return on Average Shareholders' Equity



Capital Expenditures



In March, 1976, the company announced plans to spend more than $30 million at its newly acquired Hubinger subsidiary to enter the high fructose syrup business. This project covers the completion of a 60% expansion of corn grinding capacity and construction of a refinery. Scheduled for completion in the fall of 1977, it will result in annual production capacity of more than 500 million pounds of the syrup. Environmental and pollution control facilities will require $4.5 million of total estimated expenditures.

Capital expenditures related to environmental and pollution control facilities approximated $2 million in 1976. Similar expenditures for 1977 and 1978 (including the high fructose corn syrup expansion) call for approximately $11.5 million and $6.5 million, respectively.

Working Capital

Year-end working capital increased to $434.6 million, from $378.4 million. The year-end current ratio rose to 2.32, from 1.95. The increase in working capital is principally the result of a $47.6-million rise in cash and marketable securities and to reductions of $74.8 million in inventories and $69.1 million in current debt.

Financing

An April, 1976 agreement between the company's Australian subsidiary and a group of six Australian banks and financial institutions provides for the borrowing of Australian dollars equivalent to approximately $15 million. The agreement calls for a four-year term with an interest rate of 1.25% over the short-term Australian bill rate plus a commitment fee of ½%. At the end of 1976, the equivalent of $7.4 million had been borrowed under this agreement.

Stock Market Information

H. J. Heinz Company common stock is listed on and traded principally on the New York Stock Exchange under the symbol HNZ. Approximately 3,360,000 and 2,475,100 shares of the company's common stock were traded during fiscal years 1976 and 1975, respectively. The following table shows the dividends paid per common share and the price range of the common stock for each quarter of the past two fiscal years. The closing price of the common stock on the New York Stock Exchange at April 28, 1976 was $48½.

Common Stock	Dividends Per Share	Stock Price Range High	Stock Price Range Low
1976 by Quarter			
First	$ .32	$57	$43¼
Second	.32	53¼	44½
Third	.32	53¾	47
Fourth	.34	51¾	46⅝
Total	$1.30		
1975 by Quarter			
First	$ .28	$49	$40
Second	.28	43¾	27
Third	.28	46¼	35
Fourth	.32	51½	44½
Total	$1.16		

H. J. Heinz Company 3.65% series cumulative preferred stock does not have voting rights. Quarterly dividends of $.9125 have been paid in each quarter during the past two years.

H. J. Heinz Company $3.50 second cumulative preferred stock has voting rights on an equal basis with the common stock. The $3.50 second cumulative preferred stock is not listed on any stock

exchange and the company has no knowledge of any price quotations or any private trades that might have taken place during the past two years. Quarterly dividends of $.875 have been paid in each quarter during the past two years.

H. J. Heinz Company $1.70 third cumulative preferred stock was listed on the New York Stock Exchange following its issuance in December, 1975 in connection with the acquisition of The Hubinger Company. The shares trade under the symbol HNZ PR. From the date of its listing through fiscal year end, the stock's price ranged from a low of $27¾ to a high of $32. It closed on April 28, 1976 at $29½. Approximately 365,000 shares were traded during this period. Each share entitles the holder to one-half vote. A quarterly dividend of $.425 was paid on April 1, 1976. A dividend of approximately $.08 paid on January 1, 1976 covered the portion of the quarter during which the stock was initially outstanding.

The company's capital stock is described in more detail in note 4 of the Notes to Consolidated Financial Statements.

Supplementary Data (See note 12 of the Notes to Consolidated Financial Statements.)

Maintenance and repair expense rose by 20.8%, to $55.3 million, from $45.8 million in 1975. Last year's amount was 13.6% higher than the $40.3 million reported in 1974. These increases are attributable to higher material and wage costs incurred in the normal course of operations, as well as additional maintenance required on the company's expanding operations.

Depreciation expense was $27.9 million, up by 11.2% over $25.1 million in 1975. This latter amount was 11.3% higher than depreciation in 1974. The increases in both years reflect the higher base of capital assets resulting from greater capital expenditures.

Payroll tax expense in 1976 increased by $5.5 million, or 28.5%, to $24.9 million. The amount in 1975 was 20.5% higher than the comparable amount in 1974 of $16.1 million. Both increases result primarily from higher wages and higher tax rates.

Other tax expense rose by $1.9 million, or 19.6%, to $11.8 million. Generally higher property tax rates were responsible.

Rent expense of $18.1 million in 1976 was higher by $4.4 million, or 31.8%. This was due to increases in outside storage rental.

Advertising expenses reached $177.1 million, up from $136.2 million. The 30.0% increase is explained under Selling, General and Administrative Expenses on page 31 of this Financial Review.

Statements of Consolidated Income

Fiscal year ended	April 28, 1976 (52 weeks)	April 30,1975 (52 weeks)
Net sales	$1,882,359,000	$1,662,701,000
Cost of products sold	1,228,229,000	1,097,093,000
Gross profit	654,130,000	565,608,000
Selling, general and administrative expenses	510,310,000	428,970,000
Operating profit	143,820,000	136,638,000
Other income, net	8,606,000	12,789,000
	152,426,000	149,427,000
Interest expense	22,909,000	31,027,000
Income before income taxes	129,517,000	118,400,000
Provision for income taxes	53,675,000	49,958,000
	75,842,000	68,442,000
Income applicable to minority interests	1,882,000	1,875,000
Net income	$ 73,960,000	$ 66,567,000
Per common share amounts:		
Primary	$ 4.82	$ 4.40
Fully diluted	$ 4.72	$ 4.38

See notes to consolidated financial statements beginning on page 44.

Assets	April 28, 1976	April 30, 1975
Current Assets:		
Cash	$ 24,813,000	$ 18,569,000
Marketable securities, at cost which approximates market	103,429,000	62,073,000
Receivables:		
Trade	154,876,000	140,623,000
Sundry	19,240,000	18,905,000
	174,116,000	159,528,000
Less Allowance for doubtful accounts	4,202,000	1,926,000
	169,914,000	157,602,000
Inventories	443,424,000	518,199,000
Prepaid expenses	22,064,000	20,211,000
Total current assets	763,644,000	776,654,000
Investments and Other Assets:		
Investments in and advances to entities, less allowance for losses of $4,096,000 ($2,522,000 in 1975)	43,858,000	39,508,000
Excess of investments in consolidated subsidiaries over net assets at acquisition	13,992,000	14,117,000
Miscellaneous other assets	10,065,000	10,061,000
	67,915,000	63,686,000
Property, Plant and Equipment, at Cost:		
Land	14,776,000	15,127,000
Buildings and leasehold improvements	169,840,000	153,760,000
Equipment, vessels and fixtures	390,376,000	341,008,000
	560,216,000	494,768,000
Less Accumulated depreciation	241,191,000	209,440,000
	319,025,000	285,328,000
Lug boxes, baskets and pallets, less amortization	2,823,000	3,457,000
Net property, plant and equipment	336,624,000	303,912,000
	$1,168,183,000	$1,144,252,000

See notes to consolidated financial statements beginning on page 44.

Liabilities and Shareholders' Equity	April 28, 1976	April 30, 1975
Current Liabilities:		
Short-term debt	$ 63,139,000	$ 140,043,000
Portion of long-term debt due within one year	11,812,000	4,057,000
Accounts payable:		
Related to suppliers	140,726,000	138,936,000
Sundry	10,866,000	15,793,000
	151,592,000	154,729,000
Accrued liabilities	63,855,000	57,836,000
Federal, foreign and state income taxes	38,674,000	41,571,000
Total current liabilities	329,072,000	398,236,000
Long-Term Debt and Other Liabilities:		
Long-term debt	144,436,000	150,951,000
Incentive profit-sharing plans	6,806,000	7,375,000
Deferred Federal and foreign income taxes	31,096,000	24,848,000
Future United Kingdom income taxes	25,270,000	22,797,000
Sundry	15,851,000	14,373,000
	223,459,000	220,344,000
Reserve for international operations	—	4,683,000
Minority interests	17,039,000	18,193,000
Shareholders' Equity:		
Capital stock:		
Cumulative preferred	2,695,000	2,833,000
Second cumulative preferred, having an involuntary liquidation value of $100 per share, or $282,000 ($940,000 in 1975), based on shares outstanding:		
$3.50 first series	10,000	10,000
$3.50 second series	42,000	164,000
Third cumulative preferred, having a liquidation value of $30.50 per share, or $54,900,000, based on shares outstanding:		
$1.70 first series	18,000,000	—
Common stock	63,142,000	62,894,000
	83,889,000	65,901,000
Additional capital	87,376,000	62,812,000
Retained earnings	427,356,000	374,091,000
	598,621,000	502,804,000
Less Treasury shares at cost	8,000	8,000
	598,613,000	502,796,000
	$1,168,183,000	$1,144,252,000

Fiscal year ended	April 28, 1976	April 30, 1975
Additional Capital		
Amount at beginning of year	$ 62,812,000	$ 56,932,000
Excess of:		
Net assets acquired over par value of preferred shares issued in connection with acquisition	23,235,000	—
Proceeds received over par value of shares issued (Italian subsidiary)	—	5,910,000
Option price over par value of common shares issued under employees' incentive stock option plans	1,283,000	—
Cost of treasury shares reissued under employees' incentive stock option plans over option price	—	(112,000)
Par value over cost of preference stock retired (United Kingdom subsidiary)	14,000	41,000
Par value of preferred shares over par value of common shares issued in exchange therefor	12,000	1,000
Par value over cost of cumulative preferred stock retired	51,000	40,000
Other	(31,000)	—
Amount at end of year	$ 87,376,000	$ 62,812,000
Retained Earnings		
Amount at beginning of year	$374,091,000	$325,165,000
Add Net income for the year	73,960,000	66,567,000
	448,051,000	391,732,000
Deduct Dividends paid:		
On preferred stock:		
3.65% series	101,000	105,000
$3.50 series	24,000	34,000
$1.70 series	899,000	—
	1,024,000	139,000
On common stock, $1.30 per share ($1.16 in 1975)	19,671,000	17,502,000
	20,695,000	17,641,000
Amount at end of year	$427,356,000	$374,091,000

See notes to consolidated financial statements beginning on page 44.

Statements of Consolidated Changes in Financial Position

Fiscal year ended	April 28, 1976	April 30, 1975
Funds Provided:		
Net income	$ 73,960,000	$ 66,567,000
Charges to income not requiring funds:		
Depreciation	27,900,000	25,090,000
Unrealized exchange losses	824,000	1,222,000
Deferred and future income taxes	16,528,000	18,895,000
Minority interests and other	5,117,000	6,487,000
Funds from operations	124,329,000	118,261,000
Long-term borrowings	14,292,000	24,633,000
Issuance of stock in connection with acquisitions	41,235,000	9,568,000
Other items, net	1,424,000	532,000
Total funds provided	181,280,000	152,994,000
Funds Used:		
Additions to property, plant and equipment	34,682,000	57,219,000
Less Retirements and disposals	(5,181,000)	(4,918,000)
	29,501,000	52,301,000
Acquisition of net assets (other than working capital)	31,111,000	17,500,000
Increase in investments and other long-term assets	5,986,000	68,000
Reduction of long-term debt	20,807,000	4,297,000
Dividends paid	20,695,000	17,641,000
Decrease in other liabilities	17,026,000	6,673,000
Total funds used	125,126,000	98,480,000
Increase in working capital	$ 56,154,000	$ 54,514,000
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash and securities	$ 47,600,000	$ (995,000)
Receivables	12,312,000	11,782,000
Inventories	(74,775,000)	99,232,000
Prepaid expenses	1,853,000	1,971,000
	(13,010,000)	111,990,000
Increase (decrease) in current liabilities:		
Debt	(69,149,000)	8,098,000
Payables	(3,137,000)	28,548,000
Accrued liabilities	6,019,000	11,707,000
Income taxes	(2,897,000)	9,123,000
	(69,164,000)	57,476,000
Increase in working capital	$ 56,154,000	$ 54,514,000

See notes to consolidated financial statements beginning on page 44.

1. Significant Accounting Policies

Accounting Principles The consolidated financial statements have been prepared using generally accepted accounting principles followed in the United States.

Principles of Consolidation The consolidated financial statements include the accounts of the company and all significant domestic and foreign subsidiaries except for subsidiaries owning and operating fishing vessels, which are accounted for on the equity method. These latter subsidiaries, together with investments in other entities also primarily engaged in the ownership or operation of fishing vessels, are carried at cost plus equity in undistributed earnings since acquisition. Equity income is reflected as a reduction of cost of products sold after appropriate provision for income taxes. All material intercompany transactions have been eliminated from the consolidated financial statements.

The excess of cost of investments in consolidated subsidiaries over the net assets acquired subsequent to fiscal 1971 is being amortized over 40 years, and the excess arising prior to fiscal 1972 is not being amortized. The portion subject to amortization was $5,169,000 at April 28, 1976 ($5,294,000 at April 30, 1975).

Translation of Foreign Currencies Financial statements of foreign affiliates are translated using the provisions of the recently issued Financial Accounting Standards Board Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." Monetary assets and liabilities are translated at current exchange rates. Nonmonetary assets and liabilities are translated at the exchange rates in effect when the assets were acquired or the liabilities incurred. Operating accounts are translated at average rates of exchange prevailing during the year except depreciation, which is translated at the rates in effect when the related assets were acquired. Unrealized gains or losses on the translation of foreign currencies are recognized in the current income statement. See note 9 for principal differences between this method and the method used in 1975, and the effect of the change on the results of operations for the current and prior years.

Inventories Inventories are stated at the lower of cost (principally the average method) or replacement market.

Property, Plant and Equipment Property, plant and equipment are carried at cost. Major additions and betterments are charged to the property accounts, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed in the year incurred. Property disposed of is removed from the asset and accumulated depreciation accounts, with the gain or loss recognized in the current income statement.

Depreciation For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives as follows:

Buildings	10-50 years
Equipment and Fixtures	3-20 years
Vessels and Automotive Equipment	3-20 years

Accelerated depreciation methods are generally used for income tax purposes.

Income Taxes The company has not provided for deferred taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Where it is contemplated that earnings will be remitted, the credit for foreign taxes already paid generally offsets applicable U.S. income taxes. In those cases where such foreign taxes do not offset U.S. income taxes, appropriate provisions are included in the Statements of Consolidated Income. Deferred income taxes result principally from differences between

depreciation deducted for income tax purposes and for financial statement reporting. The investment tax credit is accounted for under the "flow-through" method, which recognizes the benefit in the fiscal year in which the asset is acquired and placed into service.

Retirement Systems It is the policy of the company and its consolidated subsidiaries to fund pension costs as accrued. Prior service costs are amortized over varying periods not exceeding 40 years.

Research and Development Expenses Expenditures for agricultural, processing and marketing research and development are charged against income as incurred.

Interest Expense Expenditures for interest are charged against income as accrued and are not capitalized in the consolidated financial statements.

Per Common Share Amounts Primary income per common share has been computed by dividing income applicable to common shareholders (that is, after deducting preferred dividends) by 15,130,989 (15,088,743 in 1975), which represents the weighted average number of shares of common stock outstanding during the respective years. Fully diluted income per common share has been computed by adding dividends on convertible preferred stock to income applicable to common shareholders and dividing the resultant amount by the average number of shares of common stock outstanding plus the additional shares that would have been outstanding if preferred stock had been converted and outstanding stock options had been exercised.

2. Short-Term Debt	1976	1975
Amount outstanding at year end	$ 63,139,000	$140,043,000
Average interest rate at year end	6.1%	8.7%
Average amount outstanding during period	$114,865,000	$185,748,000
Average interest rate for period	9.4%	11.3%
Maximum amount outstanding at any month end during period	$133,893,000	$238,307,000
Lines of credit available at year end	$278,650,000	$325,224,000
Lines of credit unused at year end	$215,511,000	$185,181,000

Amounts outstanding at each year end consist principally of bank borrowings except for commercial paper borrowings of $10,537,000 at an average rate of 6.2% ($6,064,000 at 11.2% in 1975). The average amounts outstanding were computed on the basis of month-end balances, and the average interest rates were computed by dividing the actual interest expense by the previously determined average amounts outstanding. Lines of credit include lines available through the revolving bank credit agreement discussed in more detail in note 3. Other lines of credit are typically renewed from year to year and may be withdrawn or canceled by either party. The company generally maintains cash balances of 10% of the line of credit with domestic banks. These balances are not subject to withdrawal restrictions.

3. Long-Term Debt

Details of long-term debt at April 28, 1976 and April 30, 1975 follow.

	Interest percent	Maturity (fiscal year)	1976	1975
United States Dollars:				
Promissory notes	to 11¼%	1977-1990	$ 8,328,000	$ 7,547,000
Promissory notes	5¼	1977-1984	8,000,000	9,000,000
Promissory notes	6⅝	1979-1993	40,000,000	40,000,000
Debentures	7¼	1984-1998	50,000,000	50,000,000
Mortgages and contracts	to 7⅜	1977-2000	6,381,000	4,058,000
			112,709,000	110,605,000
Foreign Currencies (U.S. dollar equivalents):				
Promissory notes:				
British pounds	to 10½	1977-1981	12,810,000	16,499,000
Portuguese escudos	7¾	1977	186,000	484,000
Australian dollars	to 12⅜	1977-1979	12,462,000	4,926,000
Debentures:				
British pounds	to 6	1977-1985	4,910,000	6,897,000
Mortgages:				
Italian lire	to 9	1977-1988	13,171,000	15,597,000
			43,539,000	44,403,000
Total long-term debt			156,248,000	155,008,000
Less Portion due within one year			11,812,000	4,057,000
			$144,436,000	$150,951,000

Principal payments due on consolidated long-term debt outstanding at April 28, 1976 during the four years succeeding 1977 are as follows:

1978	$ 9,259,000
1979	$15,948,000
1980	$10,093,000
1981	$ 7,703,000

Under the most restrictive debt covenant (the indenture relating to the company's 7¼% debentures), retained earnings of $232,000,000 at April 28, 1976 ($135,000,000 at April 30, 1975) were free from such restriction.

Property, plant and equipment of domestic and foreign subsidiaries amounting to $57,068,000 are subject to liens to secure $16,743,000 of indebted-

ness of such subsidiaries. In addition, current assets of $180,450,000 and property, plant and equipment of $70,541,000 of certain foreign subsidiaries could become subject to liens to secure indebtedness of $10,505,000 in the event of default under the provisions of the related loan agreements.

Effective December 31, 1974, the company entered into a bank credit agreement whereby a group of 13 banks were committed to lend the company a maximum of $100,000,000. On July 2, 1976, the company voluntarily terminated such agreement with all 13 banks.

Long-term debt of unconsolidated subsidiaries, incurred primarily to acquire fishing vessels, aggregated $13,201,000 at April 28, 1976. Principal payments due during the five succeeding years are as follows:

1977	$ 750,000
1978	$ 900,000
1979	$ 800,000
1980	$8,751,000
1981	$ —

The company has guaranteed long-term debt of such unconsolidated subsidiaries together with debt of other third parties amounting to $10,733,000 at April 28, 1976.

4. Capital Stock

The number of shares authorized, outstanding, issued, retired or converted, and the par values of the company's capital stock appear in the table following this note.

The 3.65% series cumulative preferred stock is callable or redeemable through the sinking fund at $102.75 per share. Payments (or open market purchases of such stock) aggregating $200,000 are required to be made to the sinking fund on or before October 1 of each year.

The $3.50 first series second cumulative preferred stock may be redeemed by the company at $100 per share. On or before each August 1, so long as any shares of this series are outstanding, the company (as and for an annual sinking fund) shall have retired, through redemption, purchase or otherwise, a specified portion of the total number of shares of this series outstanding (659 shares) at the close of business on June 1, 1973. That portion shall be calculated at the rate of 2% per year, on a cumulative basis.

The $3.50 second series second cumulative preferred stock was convertible into common stock at any time prior to February 1, 1976 at a conversion rate of four shares of common stock or may be redeemed by the company at $100 per share. On or before April 1, 1976, and on or before each April 1 thereafter, so long as any shares of this series are outstanding, the company (as and for an annual sinking fund) shall have retired, through redemption, purchase or otherwise, a specified portion of the total number of shares of this series outstanding (2,394 shares) at the close of business on February 1, 1976. That portion shall be calculated at the rate of 2% per year, on a cumulative basis.

The $1.70 first series third cumulative preferred stock is convertible into common stock at any time at an initial conversion rate of one-half share of common stock or may be redeemed by the company at $30.50 per share beginning on December 1, 1982, and at decreasing prices thereafter until December 1, 1986, when it may be redeemed at $28.50 per share.

At April 28, 1976, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

At April 28, 1976, 1,170,733 shares (377, 656 at April 30, 1975) of common stock were reserved for conversion of convertible preferred stock outstanding and for outstanding options or for the granting of options under the employees' stock option plan.

	Cumulative preferred stocks					
	3.65% series $100 par	$3.50 First series $18.50 par	$3.50 Second series $18.50 par	$1.70 First series $10 par	Common stock $4.16⅔ par	Treasury stock
Year ended April 30, 1975:						
Outstanding at beginning	29,208	560	9,487	—	15,091,931	16,398
Reacquired and retired	(878)	—	—	—	—	—
Converted to common stock	—	—	(648)	—	2,592	—
Issued on exercise of stock options	—	—	—	—	—	(16,200)
Outstanding at end	28,330	560	8,839	—	15,094,523	198
Authorized at end	28,330	560	8,839	—	20,000,000	—
Year ended April 28, 1976:						
Outstanding at beginning	28,330	560	8,839	—	15,094,523	198
Reacquired and retired	(1,384)	—	(136)	—	—	—
Converted to common stock	—	—	(6,445)	—	25,780	—
Issued:						
For acquisition	—	—	—	1,800,000	—	—
On exercise of stock options	—	—	—	—	33,867	—
Outstanding at end	26,946	560	2,258	1,800,000	15,154,170	198
Authorized at end	26,946	560	2,258	1,800,000	20,000,000	—

5. Employees' Stock Option Plans and Management Incentive Plan

The 1970 Stock Option Plan (1970 Plan) permits the granting of options to purchase a maximum of 300,000 shares of common stock of the company. The option price must not be less than the fair market value at the time the options are granted for qualified options and nonqualified options to purchase unrestricted shares. The price cannot be less than the fair value as determined by the Executive Compensation Committee at the time options are granted for nonqualified options to purchase restricted shares. The Committee determines the period during which options are exercisable, which may not exceed five years for qualified options or 10 years for nonqualified options. No options may be granted after June 9, 1980, the expiration date of the plan.

The qualified employees' incentive stock option plan (Plan No. 2) permitted the granting of options on shares of common stock of the company at not less than the fair market value at the time the options were granted. The options were exercisable at any time within five years from the date of grant but no later than July 9, 1975, at which date the plan expired.

Data regarding options granted and exercised and shares reserved for additional grants appear in the table below.

		Fair market value at date of grant	
	Shares	Range	Total
For the year ended April 30, 1975:			
Shares under option at beginning	195,087	\$31 – \$51½	\$ 8,074,656
Options granted	34,963	40 – 40⅜	1,405,297
Options exercised	16,200	31 – 43¼	531,750
Shares under option at end (all exercisable)	213,850	\$38 – \$51½	\$ 8,948,203
Shares reserved for granting of additional options	128,450		
For the year ended April 28, 1976:			
Shares under option at beginning	213,850	\$38 – \$51½	\$ 8,948,203
Options granted	59,025	48½ – 49½	2,955,557
Options exercised	33,867	38 – 43¼	1,424,376
Shares under option at end (all exercisable)	239,008	\$38 – \$51½	\$10,479,384
Shares reserved for granting of additional options	31,725		

The fair market value per share at the dates on which options were exercised ranged from \$43¾ to \$55¾ in 1976 and from \$43¾ to \$47⅞ in 1975, and the total fair market values of those options at the same dates were \$1,747,000 and \$727,000, respectively.

The Management Incentive Plan, adopted in fiscal 1969 and amended in fiscal 1974, covers certain key employees of the company and its subsidiaries. Participants in the plan may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any fiscal year. The company's expense in connection with the plan was \$4,351,000 in 1976 (\$4,212,000 in 1975).

6. Income Taxes

The following constitutes the provisions for Federal, State, U.S. Possessions and foreign taxes on income for 1976 and 1975.

	1976	1975
Federal, State and U.S. Possessions:		
Current	$27,243,000	$24,967,000
Deferred	2,038,000	1,813,000
	29,281,000	26,780,000
Foreign:		
Current	20,184,000	19,113,000
Deferred	4,210,000	4,065,000
	24,394,000	23,178,000
	$53,675,000	$49,958,000

The current provision represents the taxes on that year's income paid or payable within the next year, except for the company's United Kingdom subsidiary, which pays its taxes in the second following year, as provided by United Kingdom tax regulations. The current provision for Federal taxes in 1976 includes a reduction for the investment tax credit amounting to $1,484,000 ($969,000 in 1975).

The deferred provision represents the taxes on that year's income due to be paid beyond the next year as a result of timing differences in the recording of expenses for financial statement and tax return purposes. The deferred provision primarily represents the tax effect of using accelerated methods of depreciation for tax purposes, as against the straight-line method used for financial reporting.

The provisions for taxes on income for 1976 and 1975 were 41.4% and 42.2%, respectively, of pretax income. The following reconciles the United States statutory rate with the effective rates.

	1976	1975
United States statutory tax rate	48.0%	48.0%
Investment tax credit	(1.1)	(0.8)
Income of foreign subsidiaries taxed at foreign tax rates	(0.3)	1.6
Income of U.S. Possessions subsidiaries taxed at possession tax rates	(7.3)	(9.5)
State income taxes (net of Federal income tax benefit)	1.5	1.4
Other	0.6	1.5
	41.4%	42.2%

The company files consolidated Federal income tax returns, and such returns have been settled for all years through 1971.

Payment of certain income taxes has been postponed by the United Kingdom government, which accounts for the increase in the future United Kingdom income tax liability as shown on the Consolidated Balance Sheets. When these taxes become payable, the appropriate amount will be transferred to the current liability account.

7. Retirement Systems

The company and the majority of its domestic and foreign subsidiaries have pension plans covering substantially all employees. The total pension expense for 1976 was $19,217,000 ($13,736,000 in 1975). The increase in expense is attributable primarily to improved pension benefits of the U.S. and Canadian plans, changes in actuarial assumptions of the United Kingdom plans and higher salary levels of covered employees.

As of the most recent valuation date, the actuarially computed vested benefits of the plans covering employees of the company and its significant domestic subsidiaries exceeded fund assets by approximately $16,000,000. The unfunded past service cost of the company and its consolidated subsidiaries approximated $93,000,000 at April 28, 1976. The increase in the unfunded past service liability is due primarily to the improved pension benefits.

8. Special Meeting of Shareholders

At a special meeting of shareholders held on December 16, 1975, the shareholders approved a proposal to amend and restate in their entirety the Amended and Restated Articles of Incorporation of the company in order to (a) increase the number of shares of third cumulative preferred stock that Heinz is authorized to issue from 250,000 shares to 4,000,000 shares; (b) change the par value of such third cumulative preferred stock from $100 per share to $10 per share; (c) authorize the Board of Directors of Heinz to fix the voting rights, if any, of each series of such third cumulative preferred stock; (d) reduce the number of authorized shares of cumulative preferred stock by 100,000 shares and of second cumulative preferred stock by 1,764 shares; and (e) broaden the corporate purposes clause.

At the same time, the shareholders approved the Agreement and Plan of Reorganization dated September 26, 1975 and related Agreements and Plans of Merger providing for the acquisition of The Hubinger Company. The acquisition of The Hubinger Company is described on page 35 of the Financial Review and Management's Analysis.

9. Foreign Operations

Condensed balance sheets of consolidated foreign subsidiaries appear below.

	April 28, 1976	April 30, 1975
Current assets	$ 300,440,000	$ 351,768,000
Current liabilities	132,684,000	196,438,000
Working capital	167,756,000	155,330,000
Fixed and other assets	160,480,000	163,120,000
Long-term debt and other liabilities	(110,869,000)	(119,462,000)
Net assets	$ 217,367,000	$ 198,988,000

Realization in U.S. dollars of assets located outside the United States is limited in certain instances by currency and other restrictions. Undistributed earnings of foreign subsidiaries amounted to $181,655,000 at April 28, 1976 ($165,242,000 at April 30, 1975). Deferred income taxes are not provided on such earnings since they are considered to be reinvested indefinitely.

During 1976, the company adopted FASB Statement No. 8, which provides new guidelines for the translation of foreign currency transactions and financial statements. The principal differences between the newly adopted translation method and the company's former technique are that inventories are translated at historical rates, long-term debt is translated at current rates, and unrealized gains and losses arising from translation are recorded in income as they occur. Formerly, the company translated inventories at current rates and long-term debt at historical rates, and credited or charged exchange gains and losses to a reserve for international operations. Exchange losses resulting from the translation of foreign currency financial statements under Statement No. 8 in 1976 amounted to $2,507,000 and have been reduced by $1,683,000, which represents the accumulated exchange gains through 1975 that were included in the reserve for international operations. The balance in the international reserve of $3,000,000 has been used to reduce the carrying value of foreign inventories to approximate net realizable value. The effect of the change in translating foreign currency financial statements was to reduce the exchange loss in 1976 by $11,840,000, or 78 cents a share. Prior years' financial statements have not been restated, since the effect of Statement No. 8 would not be significant.

Translation losses in 1975 amounted to $3,202,000, of which $1,222,000 was charged to operations and represented the impact of the devaluation of the Australian dollar and $1,980,000 was charged to the international reserve.

Realized exchange gains and losses during 1976 and 1975 and unperformed forward exchange contracts at the end of each year were not significant.

10. Inventories

The inventories at April 28, 1976, April 30, 1975 and May 1, 1974 that were used in determining cost of products sold for 1976 and 1975 are summarized as follows:

	1976	1975	1974
Finished goods	$275,642,000	$322,156,000	$255,390,000
Work-in-process	40,682,000	36,847,000	24,983,000
Ingredient and packaging material	127,100,000	159,196,000	138,594,000
	$443,424,000	$518,199,000	$418,967,000

11. Leases

The net rental commitments under all noncancelable leases as of April 28, 1976 are shown in the following tabulation.

Period	Real estate	Equipment	Total
1977	$ 4,157,000	$ 3,809,000	$ 7,966,000
1978	4,111,000	3,172,000	7,283,000
1979	3,557,000	2,566,000	6,123,000
1980	3,023,000	2,071,000	5,094,000
1981	2,851,000	1,777,000	4,628,000
1982-1986	13,071,000	2,124,000	15,195,000
1987-1991	10,774,000	600,000	11,374,000
1992-1996	7,576,000	521,000	8,097,000
1997 and thereafter	3,608,000	—	3,608,000

Noncapitalized financing leases are not material in relation to the company's operations.

12. Supplementary Data

Set forth below is a summary of certain other financial statement data.

	1976	1975
Accrued liabilities (at end of year):		
Salaries and wages	$ 17,709,000	$ 12,970,000
Taxes, other than on income	5,921,000	5,379,000
Interest	3,062,000	2,627,000
Other	37,163,000	36,860,000
	$ 63,855,000	$ 57,836,000
Minority interests (at end of year):		
Preference shares—at par value	$ 2,271,000	$ 3,278,000
Common shareholders' equity	14,768,000	14,915,000
	$ 17,039,000	$ 18,193,000
Supplemental income statement information (for the year):		
Maintenance and repair expense	$ 55,344,000	$ 45,807,000
Depreciation expense	$ 27,900,000	$ 25,090,000
Tax expense, other than on income:		
Payroll taxes	$ 24,879,000	$ 19,358,000
Other	11,780,000	9,852,000
	$ 36,659,000	$ 29,210,000
Rent expense	$ 18,075,000	$ 13,716,000
Advertising expense	$177,111,000	$136,233,000
Other income, net (for the year):		
Interest income	$ 8,103,000	$ 8,059,000
Gain from settlement of fire losses	—	5,431,000
Other items, net	503,000	(701,000)
	$ 8,606,000	$ 12,789,000

13. Other Matters

The company is one of 23 defendants in an antitrust class action suit that alleges violation of the Federal Agricultural Fair Practices Act of 1967 and the Federal antitrust laws in the purchase of tomatoes for processing in California, including allegations that the company and the other defendant tomato processors conspired to restrain trade in canning tomatoes; to monopolize commerce in canning tomatoes; to eliminate competition in the purchase of canning tomatoes; and to fix and stabilize prices paid for canning tomatoes in violation of the Sherman Act. The company is vigorously defending this suit, whose class action status has not yet been determined.

The staff of the Federal Trade Commission is currently conducting investigations relating to the tuna industry, the frozen and dehydrated potato industry and the wet corn milling products industry. The company has supplied the staff with information in connection with these investigations. At the present, the company does not know what, if any, action may be taken by the staff of the Commission as a result of these investigations.

Because of the preliminary nature of the antitrust litigation and the antitrust investigations noted above, management is unable to set forth a definitive opinion with respect to the potential future impact of such litigation and investigations on the company's consolidated financial statements, but judging from the present status of such litigation and investigations, management does not believe that they, when finally concluded and determined, will have a material adverse effect on the consolidated financial statements.

Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. In the opinion of management, these claims, when finally concluded and determined, will not have a material adverse effect on the consolidated financial statements.

Contracts and purchase order commitments of approximately $18,000,000 at April 28, 1976 have been executed in connection with capital assets.

The Shareholders
H. J. Heinz Company:

We have examined the consolidated balance sheets of H. J. Heinz Company and consolidated subsidiaries as of April 28, 1976 and April 30, 1975 and the related statements of income, additional capital, retained earnings and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries, which are included in the consolidated statements. The net assets and net sales of such subsidiaries constitute approximately 26% and 23%, respectively (21% and 24%, respectively, in 1975), of the related consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examination and the aforementioned reports of other auditors, the above mentioned financial statements present fairly the financial position of H. J. Heinz Company and consolidated subsidiaries as of April 28, 1976 and April 30, 1975, and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in the method of translation of foreign currencies as described in Note 9 of the Notes to the Consolidated Financial Statements.

Peat, Marwick, Mitchell & Co.

Henry W. Oliver Building
Pittsburgh, Pennsylvania 15222
June 22, 1976, except as to Note 3
which is as of July 2, 1976.

Fiscal Year	1976	1975	1974
Summary of Operations:			
Net sales	$ 1,882,359	$ 1,662,701	$ 1,438,251
Cost of products sold	1,228,229	1,097,093	939,565
Interest expense	22,909	31,027	21,077
Provision for income taxes	53,675	49,958	36,730
Income from continuing operations	73,960	66,567	55,520
Loss from discontinued and expropriated operations	—	—	—
Income before extraordinary items	73,960	66,567	55,520
Extraordinary items	—	—	8,800
Net income	73,960	66,567	64,320
Per common share amounts:			
Income from continuing operations	4.82	4.40	3.67
Loss from discontinued and expropriated operations	—	—	—
Income before extraordinary items	4.82	4.40	3.67
Extraordinary items	—	—	.59
Net income	4.82	4.40	4.26
Other Data:			
Dividends paid:			
Common —per share	1.30	1.16	1.09
—Total	19,671	17,502	16,427
Preferred—Total	1,024	139	146
Additions to property, plant and equipment	34,682	57,219	44,096
Depreciation	27,900	25,090	22,535
Shareholders' equity	598,613	502,796	447,434
Debt (long-term and short-term)	219,387	295,051	266,617
Average number of common shares outstanding	15,130,989	15,088,743	15,069,813
Book value per common share	35.68	33.06	29.42
Price range of common stock:			
High	57	51½	52¼
Low	43¼	27	37¼
Sales—domestic vs. foreign (%):			
Domestic	59	58	59
Foreign	41	42	41
Income—domestic vs. foreign (%):			
Domestic	66	71	57
Foreign	34	29	43

Notes:

1. This summary should be read in conjunction with the financial statements and footnotes thereto on pages 39 through 54 and the Financial Review and Management's Analysis on pages 30 through 38.

2. All dollar amounts are in thousands except per share data.

3. Fully diluted earnings per share have not been shown since during the most recent five fiscal years they would not be significantly different from primary earnings per share.

4. The losses from discontinued and expropriated operations are net of tax benefits in 1972 and 1973 of $281 and $598, respectively.

1973	1972	1971	1970	1969	1968	1967
$ 1,205,912	$ 1,098,862	$ 939,014	$ 838,136	$ 758,861	$ 711,192	$ 671,810
772,525	700,530	591,581	530,816	480,831	454,999	444,527
13,813	11,463	10,325	12,204	10,095	8,150	7,332
30,913	30,702	25,159	22,198	19,254	19,631	14,558
50,082	44,679	38,171	33,090	28,349	25,629	23,117
3,530	2,392	503	1,384	762	1,225	1,587
46,552	42,287	37,668	31,706	27,587	24,404	21,530
(25,000)	—	—	—	59	(1,910)	—
21,552	42,287	37,668	31,706	27,646	22,494	21,530
3.31	2.96	2.56	2.44	2.27	2.10	1.89
.23	.16	.03	.10	.06	.11	.13
3.08	2.80	2.53	2.34	2.21	1.99	1.76
(1.66)	—	—	—	.01	(.16)	—
1.42	2.80	2.53	2.34	2.22	1.83	1.76
1.05	1.01	.98	.88	.79½	.67½	.60
15,814	15,178	14,468	11,573	9,506	7,718	6,839
165	184	314	635	1,187	1,512	1,535
48,322	28,067	30,449	40,047	28,810	25,065	31,081
20,950	20,143	19,667	16,788	15,272	13,747	13,662
399,607	394,519	366,969	341,005	275,610	254,522	240,549
249,161	196,309	184,104	165,414	170,768	154,420	142,638
15,060,858	15,025,539	14,777,214	13,252,859	11,930,741	11,487,092	11,402,438
26.25	25.89	24.10	22.63	20.21	18.46	17.27
46¼	47¼	45⅛	39	36	25⅜	20⅝
38	38¾	28¾	28¼	23½	17	13⅞
58	57	59	58	58	55	53
42	43	41	42	42	45	47
53	54	58	53	49	39	35
47	46	42	47	51	61	65

World Headquarters
P.O. Box 57
Pittsburgh, Pennsylvania 15230

Heinz U.S.A. Division
Established 1869
Pittsburgh, Pennsylvania
Raymond F. Good, President
Factories: Chambersburg, Pennsylvania/Fremont, Ohio/Henderson, North Carolina/Holland, Michigan/Isleton, California/Lake City, Pennsylvania/Lakeview, Michigan/Lithonia, Georgia/Muscatine, Iowa/Pittsburgh, Pennsylvania/Salem, New Jersey/Schaumburg, Illinois/Stockton, California/Tracy, California/Winchester, Virginia

Star-Kist Foods, Inc.
Acquired 1963
Terminal Island, California
Joseph J. Bogdanovich, Chairman
Jerry G. Scharer, President
Factories: Terminal Island, California/Muscatine, Iowa/Perham, Minnesota
Cold Storage/Collection Stations: Dakar, Senegal/Rabaul, Papua New Guinea/Papeete, Tahiti/Greymouth, New Zealand

Star-Kist Caribe, Inc.
Acquired 1963
Factory: Mayaguez, Puerto Rico

Star-Kist Samoa, Inc.
Acquired 1963
Factory: Pago Pago, American Samoa

Star-Kist International S.A.
Acquired 1963
Panama City, Panama
Factory/Collection Station: Tema, Ghana

Starkan, Inc.
Established 1968
Factory: Mayaguez, Puerto Rico

Ore-Ida Foods, Inc.
Acquired 1965
Boise, Idaho
Robert K. Pedersen, President
Factories: Ontario, Oregon/Burley, Idaho/Greenville, Michigan

The Hubinger Company
Acquired 1975
Keokuk, Iowa
J. W. Connolly, Chairman of the Executive Committee and Chief Executive Officer
Arthur M. Robinson, Chairman
Factory: Keokuk, Iowa

H. J. Heinz Company Australia Ltd.
Established 1935
Dandenong, Victoria
Ernest W. Barr, Managing Director
Factories: Dandenong, Victoria/Greenseas Division—Eden, New South Wales

The Stanley Wine Company Pty. Ltd.
Acquired 1971
Clare, South Australia
K. H. Knappstein, Managing Director

Epicure Continental Food Company Pty. Ltd.
Acquired 1972
Moorabbin, Victoria
B. C. McGee, Director

Baltic Merchandising Pty. Ltd.
Acquired 1973
Moorabbin, Victoria
B. C. McGee, Director

H. J. Heinz Company of Canada Ltd.
Established 1909
Toronto, Ontario
Albert Forsyth, President
Factory: Leamington, Ontario

Galco Food Products Ltd.
Acquired 1971
Toronto, Ontario
H. Gallinger, President

Nichiro Heinz Company Ltd.
Established 1961
Tokyo, Japan
Kazuo Asai, President
Factory: Kurihama

Latin America Area Office
Mexico City, Mexico
Manuel Albarran, Area Director

Caribbean Restaurants, Inc.
Acquired 1976
San Juan, Puerto Rico
F. Gerardo Larrea, President

Alimentos Heinz C.A.
Established 1959
Caracas, Venezuela
Louis J. Pacini, President
Factory: San Joaquin, Carabobo

H. J. Heinz Company Ltd.
Established 1905
Hayes, Middlesex, England
John A. Connell, Deputy Chairman
Charles F. Lowe, Managing Director
Factories: Harlesden (London)/
Kitt Green/Standish

W. Darlington and Sons, Ltd.
Acquired 1969
Rustington, Sussex, England
George A. Corrin, Managing Director
John A. Connell, Managing Director
Farms: Rustington/Horley/Camberley/Poling/
Angmering/Woking/Bradford-on-Avon

Pickering Foods Ltd.
Acquired 1969
Hayes, Middlesex, England
J. G. Dudlyke, Managing Director
Management control of factories at:
Didcot, Berks (The Samor Pure Foods Ltd.)
Halnaker, Chichester (J. G. Read Poultry Ltd.)
Coleraine, Northern Ireland (Pickering Foods Ltd.)

Heinz-Erin Ltd.
Established 1967
Dublin, Ireland
Charles F. Lowe, Managing Director
Brendan G. Doyle, Managing Director

Heinz Sagima (Maroc)
Established 1974
Rabat, Morocco
Abderrahim Cherkaoui, President

Heinz-Perrier S.A.
Established 1973
Paris, France
Jean S. Menasche, Chairman

Central Europe Area Office
H. J. Heinz S.A./N.V.
Brussels, Belgium
John H. Newhall, Director

H. J. Heinz B.V.
Acquired 1958
Elst, Gelderland, The Netherlands
John H. Newhall, Acting Managing Director
Factory: Elst, Gelderland

H. J. Heinz Company (Belgium) S.A./N.V.
Established 1947
Brussels, Belgium
F. Willemse, General Manager-
Marketing and Sales

H. J. Heinz GmbH
Established 1970
Düsseldorf, Germany
S. A. Launder, General Manager-
Marketing and Sales, Germany

Industrias de Alimentacao Ltda.
Acquired 1965
Lisbon, Portugal
Jorge Giralt, General Manager
Factory: Benavente

Plasmon Dietetici Alimentari S.p.A.
Plasmon S.p.A. acquired 1963
Diet-Erba S.p.A. acquired 1974
Milan, Italy
Charles M. Berger, Managing Director
Factories: Milan/Latina/Ozzano Taro

Board of Directors

Henry J. Heinz II †
Chairman
Director since 1936

R. Burt Gookin
Vice Chairman and Chief Executive Officer
Director since 1959

Anthony J. F. O'Reilly
President and Chief Operating Officer
Director since 1971

Franklin E. Agnew
Senior Vice President
Director since 1971

Joseph J. Bogdanovich
Senior Vice President; Chairman, Star-Kist Foods, Inc.
Director since 1963

Frank M. Brettholle
Senior Vice President-Finance and Treasurer
Director since 1973

John A. Connell
Senior Vice President; Deputy Chairman, H. J. Heinz Company Ltd.
Director since 1968

Vira I. Heinz
Civic Leader; Trustee, Howard Heinz Endowment
Director since 1962

Lewis A. Lapham °†
Director, Various Corporations
Director since 1957

John A. Mayer †
Director, Various Corporations
Director since 1959

Donald C McVay
Senior Vice President-Corporate Development
Director since 1968

John T. Ryan, Jr. °†
Chairman of the Board, Mine Safety Appliances Company, Pittsburgh, Pennsylvania
Mine safety equipment
Director since 1961

William P. Snyder III °†
President, The Shenango Furnace Company, Pittsburgh, Pennsylvania
Pig iron and ingot molds
Director since 1961

S. Donald Wiley
Senior Vice President, Secretary and General Counsel
Director since 1972

° Member of the Audit Committee
† Member of the Executive Compensation Committee

Officers

Henry J. Heinz II°
Chairman of the Board

R. Burt Gookin°
Vice Chairman and Chief Executive Officer

Anthony J. F. O'Reilly°
President and Chief Operating Officer

Franklin E. Agnew°
Senior Vice President

Joseph J. Bogdanovich°
Senior Vice President

Frank M. Brettholle°
Senior Vice President-Finance and Treasurer

John A. Connell°
Senior Vice President

David A. Lattanzio
Corporate Controller

Donald C McVay°
Senior Vice President-Corporate Development

S. Donald Wiley°
Senior Vice President, Secretary and General Counsel

° Member of the Executive Committee

Corporate Data

Transfer Agent, Registrar and Disbursing Agent
Mellon Bank N.A.
Pittsburgh, Pennsylvania

Auditors
Peat, Marwick, Mitchell & Co.
Pittsburgh, Pennsylvania

Stock Listing
New York Stock Exchange
Ticker Symbols:
Common: HNZ
Third Cumulative Preferred: HNZ PR

Design: Harrison Associates
Photography: Art Kane

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H. J. Heinz Company
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